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How Industries Evolve, Mature, and Revitalize

What does the anatomy of a competitive industry look like? Our research and consulting practice involving analysis of hundreds of industries and products have revealed a typical pattern for industry evolution. All industries evolve in pursuit of two objectives: growth and efficiency; growth comes from expanding markets and expanding to new markets; efficiency through increased productivity, automation, or lowering costs. We have discovered that in their quest for efficiency and growth, most industries go through a similar evolutionary process. This life cycle consisting of start-up, growth, maturity, and aging is depicted in Fig. 1.3. Next, we discuss each phase.

Start-up Phase

Start-up industries struggle for efficiency. Growth is spectacular, but firms are inefficient due to lack of organization and scale. Thus, the first challenge is to answer how to organize and then execute. This was true in the old days of the oil industry when many refineries were dumping by-products such as gasoline in rivers after simply extracting kerosene. Meanwhile, Rockefeller's Standard Oil had figured out how to use gasoline to run its machines and also invested in other commercial uses for the by-products of oil (e.g., petroleum jelly most known for the brand Vaseline).[1]

This struggle was also true for the manufacturing of durable goods such as automatic washing machines, refrigerators, watches, and automobiles. Expertise, capital, and regulation are typical barriers to entry. Even so, as we have observed before, there were hundreds of auto manufacturers in the

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U.S. in the 1900s. These days there is less regulation and it is much easier to develop expertise and gain access to capital; thus, it is no wonder that thousands of app developers are fighting for the eyeballs of consumers in the digital age. As digital markets consolidate, the role of shakeouts and mergers will be even greater than it was during the industrial age.

Surprisingly, economies of scale are not achieved primarily through production but through procurement. For a new industry, growth is a given and what is lacking is efficiency/productivity. Thus, in the early stages of the evolution of an industry, the emphasis shifts toward efficiency. The challenge is gaining scale and those that do the best job in scaling up rapidly become the winners. The same principle also applies to the new markets being created based on the concept of shared economy today.

Growth Phase

In the growth phase, the industry is productive, doing well, and creating abundant cash flow (not only inflow but also outflow), which is reinvested in the business. It also needs to expand through new markets and product lines. Increasing volume is not challenging, but increasing market share can be. It is imperative for aspiring generalists to avoid a myopic focus on building share in a single product market. Instead, the primary objective for the generalist must be to become a full-line generalist by creating a one-stop-shop—whether it is a manufacturer, distributor, or retailer.

As generalists grow and build their market share, the Rule of Three begins to emerge. A main strategic shift occurs from fighting for market share of a focal product around which an industry is formed to adding more products and services and fighting for "share of wallet." Alternatively (or in addition), they can expand internationally from the domestic market. Figure 3.1 provides a typology of the focal options during the growth phase based on the Ansoff matrix.[2]

While retailers can often increase their scope by both product and market expansion, manufacturers are often limited to geographic expansion, and distributors usually grow by product expansion. Firms that try to create exceptions to the above convention usually fail. For example, Ford and General Motors (GM) used to be in the appliance business and both attempts failed. (Exceptions to this are conglomerates such as Hitachi and Mitsubishi which organize their business and service units as stand-alone subsidiaries.)

Market penetration: This implies selling more to the same customers/market and represents an underrated strategy. In search of growth, most

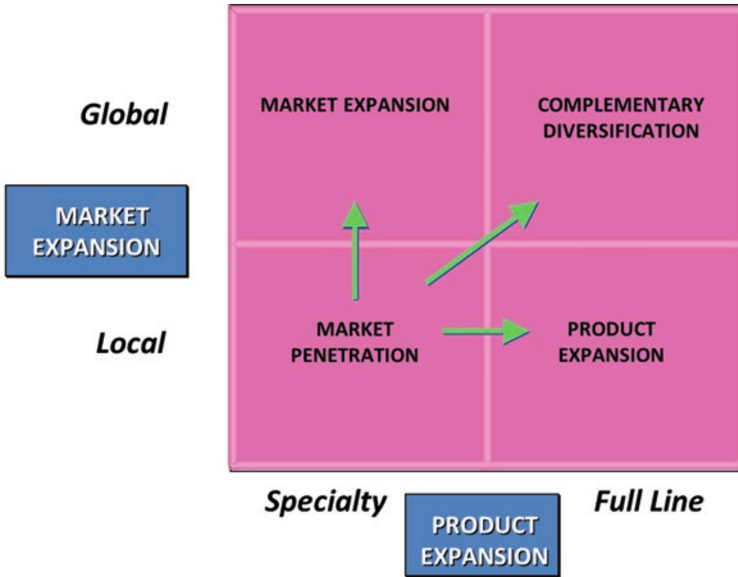

Fig. 3.1 A typology of strategic options. (Source: Adapted from "The Global Rule of Three" presentation by Jagdish N. Sheth, 2017)

companies give up on their core business too soon and focus on new markets or new products. Conquest of new markets can be appealing; managers arguably mature even before their markets do. There is significant upside potential in most markets. Worldwide penetration of smartphones stood only at about 41.5% in 2019.[3] Even in the U.S., smartphone penetration barely exceeds 70%.[4] There is room to grow because of the quick use-cycles of the phones. The smartphone upgrade cycle is well under two years for the U.S., Great Britain, France, Germany, Italy, and Spain, as well as urban China.[5] Just as with watches, even pre-teens will start to own smartphones.

Product expansion: This implies selling new products/categories and is relatively easy for retailers to pursue. For example, Wal-Mart is not only the category leader for cell phones, consumer electronics, and small kitchen appliances ahead of Amazon and Best Buy,[6] but also #1 in jewelry retail with close to $3 billion sales ahead of Sterling, Zale, or Tiffany.[7] In financial services, U.S. banks quickly expanded their offerings to include investment products after the repeal of the Glass-Steagall Act in 1999.

Market expansion: This implies selling offerings in new markets including new geographic markets. As emerging markets become the growth engines of the world, their importance for market expansion cannot be overstated. As stated above, smartphones have truly become a global market. Only 20% of

the unit sales of Coca-Cola, 37% of GM, and 39% of 3M come from North America.[8] Fifty-eight percent of Unilever's business stems from emerging markets.[9] We had mentioned the global dominance of China in the steel industry among our opening examples. Consider this: not only does China produce (2.4 gigatons) more cement than the rest of the world combined (1.73 gigatons),[10] it actually consumed much more cement over a three-year period of 2011–2013 (6.6 gigatons) than the U.S. did throughout the entire twentieth century (4.5 gigatons)![11] Even though the world knows the Chinese to be tea drinkers, it also leads beer consumption in the world by far (45.7 billion liters consumed in China in 2016 vs. 24.1 billion in the U.S. which is the #2 market).[12] Similarly, tobacco revenue from China ($215 billion) dwarfs that from #2 U.S. ($97 billion).[13]

Despite the recent setbacks and talk around tariffs and trade wars among governments, market expansion by firms has never been easier than the last decade as many emerging countries continue to invite investment and encourage global players to compete in their domestic markets. BMW already announced its "In China For China" initiative and is set to become the first foreign company to take over its joint venture (JV) partner in China.[14] It also partnered with Baidu's "Internet of Vehicles" initiative for home-to-vehicle integration.[15]

Complementary diversification: This implies expanding both products/services and markets simultaneously. A straightforward path to achieving this can be through organizing distributors in an industry (e.g., Graybar, Grainger, Aero Electronics, and Ingram Micro). Similarly, the wireless telecom industry expanded its offerings and geographic scope simultaneously moving from pagers to personal digital assistants to smartphones. Daimler tried to implement this strategy with its merger with Chrysler by expanding its offerings and serving the mass market but failed. However, this approach has played a major role in the rise of Amazon to global dominance in e-commerce today.

Maturity/Aging Phase

In the maturity stage, diversification is already completed. Scale and productivity are high and it is increasingly hard to squeeze more. Meanwhile, there is struggle to revitalize. The industry (or its technology or platform) often does not survive unless it repositions itself. Thus, many incumbents in aging industries typically die because they fail to switch to new technologies before it is too late, due to their legacy investments. For example, the Swiss dominated watchmaking as a low volume, labor-intensive craft for centuries.

Watches were treated and marketed as jewelry. In the U.S., there were 14 watchmakers clustered in/around Chicago. For example, Elgin National Watch Company's plant in Elgin, Illinois was the largest watchmaking plant in the world, and half of U.S. watch production during the first half of the last century has been attributed to it.[16] However, Timex went to mass production with its pin lever jewel movement and became number one, seemingly out of nowhere. By 1962, it had become the largest watch manufacturer in the world.[17] Then it was time for the Japanese to take over with the new quartz technology, and the Rule of Three was set with Seiko, Citizen, and Casio. Interestingly, the largest watchmaker may soon hail from India—Tata's Titan Company already dominates its home market and is eyeing expansion and can eventually go mass as well as upmarket globally in partnership with Tanishq jewelry.

Similarly, while Europeans invented photography and the automobile, it was Americans that built the mass market for them. Germans once used to dominate the camera market with brands such as Leica. Kodak eventually became the leader and even invented the disposable camera, but the transformation to digital disrupted its business and it became a casualty. From the PC to the evolution of the TV market, business annals are ripe with stories of consumer and industrial products where the incumbents had to vacate the markets that they pioneered.

In an aging industry, what is peripheral becomes core, and what is core becomes peripheral—essentially a niche market. The general market becomes a specialty market. For example, being made redundant by mobile phones, communication landlines are fast becoming a past-time in most households. Iridium (satellite-based phones) once promoted as the future of global communication is now confined to narrow specialty applications. In retailing, the dominant paradigm that was brick-and-mortar has moved online, and what was once niche has become the dominant paradigm in many retail categories (e.g., books and music). The pioneers who are unable to make the transition struggle to survive as exemplified by Microsoft's acquisition of Nokia. Nokia was a long-time leader in voice but was unable to make the transition to data, and has become a niche player for the enterprise market.

The process to achieve efficiency through scale is more complex than what is typically discussed in academia or practice, where the competition-centric view of industries predominantly emphasizes shakeouts and mergers. Instead, the biggest way industries get organized for efficiency is through public policy. Both government policy and market mechanisms can create scale and efficiency. However, in many instances, government policy is more efficient than market process. Government is not always a liability as the perception seems

to be in the U.S., it can also be an asset. Arguably, the U.S. has lost many markets it invented due to lax government stance/policy. As illustrated in Fig. 3.2, scale typically results as an outcome of the following four scenarios:

1. Government Mandate: In some cases, the government mandates consumption, and a market is created. In this case, setting up the supply chain rather than marketing is the real challenge. For example, when safety-related regulations, environmental policy, and so forth require mandatory use, the market immediately takes off. In contrast, the infrastructure was permitted to be handled by private companies in evolution of the railroads in the U.K. and the U.S., and consequently huge standard wars ensued. Due to the multiplicity of standards, the industry did not get organized into an efficient platform. Similarly, in the U.S. television industry, each manufacturer wanted its suppliers' business to heavily rely on its orders, which led to the proliferation of multiple chassis standards. The result was lack of scale efficiency even though the market was very large. This problem could have been avoided had the government mandated a standard. Meanwhile, the Japanese manufacturers and Phillips went with solid-state technology and made the tube-based businesses irrelevant. Similarly, as mentioned earlier, the U.S. government did not weigh in on a wireless communication format and decided to let the markets decide.

Consequently, AMPS, TDMA, GSM, and CDMA standards fragmented the U.S. market and prevented economies of scale, whereas Europe embraced

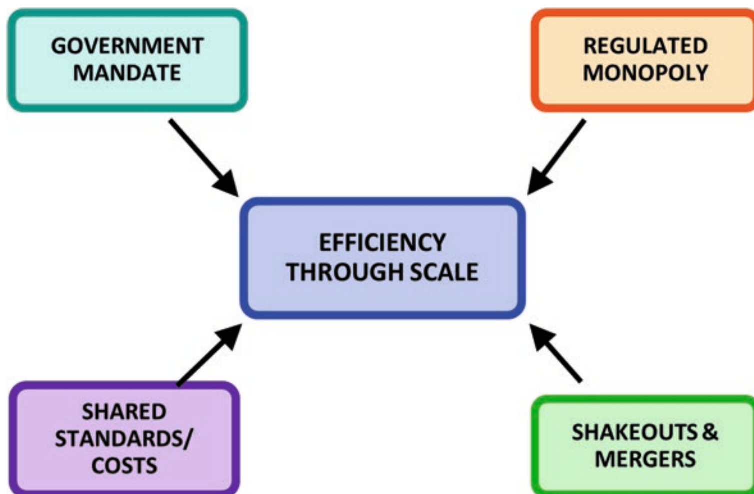

Fig. 3.2 Market pathways to scale and efficiency. (Source: Adapted from "The Global Rule of Three" presentation by Jagdish N. Sheth, 2017)

cellular technology even though they did not invent it. They were quick to adopt cellular technologies since most public phone companies were government-owned and did not have the resources to invest further in land-line infrastructure. By the time British telecom was privatized, less than half of their public phones were operational. Massive investments were needed just to maintain the copper wires. Therefore, Europe, unlike the U.S., adopted GSM as a single standard and enabled Nokia to become #1 rather than Motorola, which had invented the technology. Considering examples such as seat belts and airbags that were previously mentioned, the role of government mandates in making markets cannot be overstated. Making consumption legal through fiat, public policy, or regulation can also influence consumption, as was the case with over-the-counter drugs, with herbal medicines, and, more recently, with state-level legislation of marijuana consumption.

2. Regulated Monopolies: Municipality services, public highways, public health, and welfare programs (e.g., Medicare and Medicaid), airlines (before deregulation), wired telecom, and gas and electric utilities companies of today thrive or get curtailed at the hands of policy-makers. Consumers do not have multiple alternatives when it comes to utilities such as water, garbage collection, and sewage in many cases. The underlying assumption here is that the free market process can be highly evolutionary and wasteful, leading to bubbles, busts, and failed enterprises whereas established regulated monopolies can be more efficient and enable achieving scale relatively quickly. Such an approach may especially be suitable for emerging economies where access to capital is often problematic.

3. Shared Standards/Costs: The use of shared standards/costs can also boost licensing, contract manufacturing (outsourcing), and the creation of platforms and ecosystems (Android, Windows OS). The resounding victory of the consortia of VHS format manufacturers over Sony's Betamax format is illustrative of the advantage of shared standards. As mentioned earlier, the bulk of the cost of operation in the information/digital age is fixed. Companies such as Texas Instruments or Hughes Electronics can innovate a new communication protocol, such as DirecTV, license the technology, and watch a stand-alone industry emerge through contract manufacturing.

Similarly, Qualcomm, which invented CDMA, realized that manufacturing, selling, and maintaining products is a very slow cycle, and that it was better off licensing CDMA to all and that it could make more money from royalties than making products. Many companies are deciding if they are a technology company (Qualcomm, Apple) or a manufacturing company and they are breaking up their vertical integration. Meanwhile, Sony got stuck in

the middle between devices and content, and Samsung eventually has to make a decision between leading in technology and manufacturing.

4. Shakeouts and Mergers: As hundreds of automakers tried to adapt to the moving assembly line revolution triggered by Henry Ford, an evitable shakeout occurred. In the end, the big three survivors were Ford, GM, and Chrysler. Specialists like Checkers and Studebaker also survived initially. The same pattern happened with Internet Service Providers (ISPs) where initially there were thousands of providers. Among cable providers, Comcast has over 40% share of broadband internet subscriptions, Charter is #2 and the others are in the process of consolidation for a third to emerge.[18] A similar shakeout is happening with pharmaceutical firms, and the health care industry is also restructuring, whereas the banking sector went through restructuring during the last great recession (2007–2009).

In general, markets plateau and need to revitalize, and if they fail to do so, they succumb to the aging industry phase.

Table 3.1 depicts the differences in industries from emerging to maturity stage. Eventually, the industry becomes more efficient; however, the time and resources to get there vary based on the path chosen. In general, a government mandate is the least costly process, followed by shared standards, and finally a shakeout.

Finally, it is worth remembering that barriers to entry in many sectors are substantially lower in the information/digital age which increases the number of new entrants, building up of excess capacity, and the intensity of ensuing shakeouts.

Table 3.1 Evolution of markets across stages

Emerging	Shakeout	Mature
Many small firms	Smaller number of large firms	Shopping mall Rule of Three structure
No technical standards	Multiple standards	De facto standards
Fast growth	Faster growth	Slower growth
Ease of entry and exit	Entry and exit barriers	Mobility barriers
High specialization	High specialization	Standardization and specialization
Excess capacity	Rationalized capacity	Renews capacity
Local focus	National focus	Global focus
Many local and regional brands	National brands	Megabrands and niche brands

Source: Adapted from "Competitive Positioning: The Rule of Three" presentation by Jagdish N. Sheth, 2017

Box 3.1 When Scale Is Not Enough: Economies of Scale, Scope, and the Minimum Efficient Scale

In this section, we attempt to explain why we observe such a large performance differential for firms where both the specialists and generalists can maintain double the performance of those stuck in the middle and how extant theory of business can be augmented.

Costs are broadly categorized as fixed or variable. Fixed cost includes the cost of labor, capital, and management (a.k.a. factors of production). Cost of labor tends to be roughly 10% globally, and even less in the U.S. (around 8–9%), and under 4% in PC manufacturing. Cost of capital also used to be around 10%, but it has decreased globally (due to deflationary forces) and it even used to be zero in Japan (a condition that currently also applies to most EU countries and the U.S. due to the ongoing efforts to contain the economic damage caused by the Covid-19 pandemic). Not counting R&D expenses, management costs also tended to be about 10–11% but is now down to 8–9%, due to downsizing, outsourcing, and so on.

Thus, all in all, these sources of costs only represent about 30% of all cost. Thus, the real source of reduction in costs comes from procurement. In general, economies of scale benefit the procurement function more so than manufacturing. Generalists stand to extract benefits from their suppliers based on their scale. Alas, most firms are not good buyers, and they do not know how to procure well unless they are a retailer like Wal-Mart. For example, 11–12% of the value-add in PCs is from manufacturing and 88% is from procurement! Consequently, Microsoft and Intel have been able to make money as suppliers much more so than PC manufacturers such as HP. Until recently, the supply chain management area was very nascent, and businesses have only recently started taking full advantage of economies of procurement.

It is widely accepted by economists that there is a minimum efficient scale (MES) of operation for firms where long-run average total cost is minimized. Firms operating below MES are considered to be at a significant disadvantage against their competitors operating above MES (though the extent of the disadvantage depends on the scale parameters of the industry). The MES for fixed-cost-intensive (i.e., high operating leverage) industries is significantly higher than those of variable-cost-intensive sectors.

One of the standing puzzles in industrial economics is why high economies of scale fails to deter new entrants and also why those new entrants opt to operate below MES: "[T]he observed size of most new firms is sufficiently small to ensure that the bulk of new firms will be operating at a suboptimal scale of output. Why would an entrepreneur start a new firm that would immediately be confronted by scale disadvantages?"[19] We argue that two factors can help explain this phenomenon. First, we posit that the metrics typically used to measure MES are biased and lead to an exaggerated view of generalists entering and operating under MES. For example, the most widely used measure of MES simply assumes that 50% of industry output is generated by firms that operate at less than MES.[20]

Second, the MES metric (as currently defined by economists), while critical for generalists, is not a major factor for the success of specialists. It is unfortunate that previous studies on new entrants have largely failed to distinguish between

(*continued*)

Box 3.1 (continued)

strategic groups of the entrants, since doing so could have revealed a different notion about generalist entry at sub-optimal scale. Many specialists are able to charge premiums (by "providing unique benefits that more than offset a higher price")[21] with superior service and perceived quality in a way that renders cost-based pricing obsolete. Hence, in a differentiated market, price premiums can sustain specialists at levels well-below MES. "Benefits of scale and scope are limited in differentiated (i.e., most branded) markets."[22] Specialists by definition have to be concerned with effectiveness where they serve a well-defined segment of customers well, rather than meeting MES requirements. In fact, a specialist preoccupied with achieving MES for a generalist will likely be bound with ever-increasing inventory (and lower profitability) when its marketing can no more stimulate demand to justify higher output levels. Increasing share/sales beyond the tipping point may quickly lead to decreased customer satisfaction and/or decay the appeal of brand exclusivity.[23]

To sum, we posit that the reason why we observe a performance jump around 10% market share is that it may correspond to a general proxy for minimum efficient scale. That is, 10% market share is a better benchmark than the plant size corresponding to 50th percentile of output across industries for MES. Generalists improve their profitability significantly when they achieve MES and subsequently continue to gradually improve with more market share.

How Do Industries Revitalize?

How does an industry organize once it achieves scale efficiency and scope capabilities? The evolution is not complete even after the organization stage as the industry still needs to grow beyond its traditional scope. Academics typically do not go beyond scale and scope in their explanations. However, most industries do not die; they evolve and get transformed. The industry can take a stand to not die of chronic illness, and reincarnate. We begin by offering a few key observations:

1. *Mature industries don't die—they get redefined and "dematured"*

Ultimately, generalists in mature markets need to take a critical look at how they define their markets in order to overcome the marketing myopia that may have crept in after years of success. Such soul searching may lead to reconceiving and repositioning a business from soft drinks to non-alcoholic beverages, or an auto manufacturer as a mobility company. Currently, the worlds of media and entertainment are colliding when considered broadly.[24] With a narrow focus, the danger is that competition may come seemingly out

of nowhere. Incumbents tend to underestimate new entrants, and they then pay for this mistake dearly. Currently, a 150-year-old product, the electric car, is being reinvented by Tesla to redefine the automobile industry. Vinyl has made a comeback for collectors and DJs. In this sense, it is more appropriate to talk about repositioning and revitalization of industries rather than their death.

2. *The inevitability of the death of an industry is an exaggeration*

The old theory of industry life cycle does not have a Hollywood ending. However, as mentioned above, empirical evidence suggests that broadly reconceived industries can stage a comeback. For example, in a world where most consumers own smartphones with accurate time-telling capabilities (auto-adjust to time zone changes and daylight savings) that are more accurate than most watches, the watchmaking industry should have died unceremoniously, but it is coming back in an interesting way with smartwatches. Even though the functional purpose to wear a simple watch does not exist anymore, Japanese firms Citizen, Seiko, and Casio lead the global market for watches, while the Swiss have retreated to a niche market with high margins even as the industry is being disrupted. Currently, Fitbit, Apple, and Samsung are shaking up the watch industry by defining it and serving new unmet needs (e.g., health/GPS/information).

Similarly, General Foods' own projections for the U.S. coffee market were showing a declining trajectory, but then Starbucks came along and revitalized the industry through redefining it as an affordable luxury with friendly service. The focal point of coffee consumption now takes place at a café (or take-out from a café) rather than at home. Uber has redefined local transportation and Airbnb has done the same for the hospitality sector. We think that even commodity industries such as steel and oil will be redefined and be subject to significant transformation in the next decade.

3. *The theory of vacating markets is real*

Based on Ricardian economics, a nation can give up a market deliberately without a fight. One major wave has been from the U.S. to Japan. The U.S. gave up televisions, watches, steel production, and many more sectors to Japan. In turn, Japan has given up several sectors to Korea. For example, the U.S. (Raytheon) invented and commercialized the microwave and then outsourced to the Japanese, production then went to the Koreans, and now it is primarily done by the Chinese. Similarly, the Japanese surrendered PC

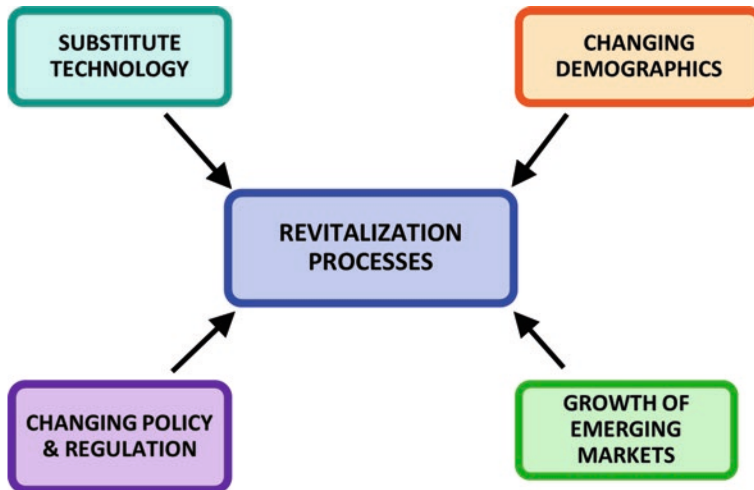

Fig. 3.3 Drivers of market revitalization. (Source: Adapted from "The Global Rule of Three" presentation by Jagdish N. Sheth, 2017)

manufacturing, and it is only a matter of time before the American companies exit voluntarily or collapse. Both Dell and HP seem to be preparing for such an outcome by gradually shifting their focus on business-to-business (B2B) from business-to-consumer (B2C) businesses. Vacating early for healthy returns is much better than being surrounded and forced to surrender.

4. *Disruptive innovation of process change comes as much from within an industry as from outside*

While it is true that radical product innovations typically come from outside, process change/innovations can arise from within, and this can also revitalize the industry. For example, the airlines have improved their processes for booking orders, advance payment, and online boarding through automation, while the product has essentially remained the same over the last four decades.

Next, we elaborate on four key drivers for revitalizing a market which are illustrated in Fig. 3.3.

Substitute Technologies

These can involve both discontinuous/disruptive or continuous improvements. For example, television sales were predicted to stagnate due to the maturity of the market, since most households already owned multiple screens

and TVs remained functional for a long time. Then the industry made those TVs obsolete by introducing larger flat screens. Sales were again supposed to stagnate due to PCs and the increasing prevalence of smaller/mobile screen formats, but TV manufacturers have been doing well with larger screens, HDTV, 3D, Full HD, Ultra HD, 4K, smart, augmented reality TV, and so on. The industry has continued to evolve and remain at the convergence of technologies.

Meanwhile, the integration of digital cameras into phones has boosted the business of lens makers. Similarly, as the focal use of the internet shifted to mobile devices, cellular phones became smartphones and thrived. The idea is that new technology makes the installed base obsolete and revitalizes the industry. IBM in its heyday used to do this very well in B2B server business. Many markets were revitalized by the internet and e-commerce and now the same process is recurring with mobile commerce and AI. Aadhaar biometric database in India already includes 1.2 billion identities and has replaced the traditional identification process for more than 90% of the population.[25] Even advanced countries do not possess such a database. In summary, a tsunami of change enabled by digital is on the horizon.

Changing Demographics

It is important to constantly seek for and recognize megatrends, disrupted patterns, and opportunities based on changes in society, knowledge, culture, industry, or macro-economics.[26] By all means, the aging population is such a key demographic fact(or): "the dominant factor in the next society will be…the rapid growth of the older population and the rapid shrinking of the younger generation…will cause an even greater upheaval…because nothing like this happened since the dying centuries of the Roman Empire."[27] Global health care spending is expected to reach $10.06 trillion by 2022 and the increasing prevalence of chronic diseases will certainly have long-term repercussions.[28] Meanwhile, the spending remains uneven—health care spending per person in 2022 is expected to exceed $11,000 for the U.S. versus merely $54 for Pakistan.[29]

Trends based on demographic factors include the focus on health foods and beverages. This trend has revitalized the respective producers as well as groceries; the premiums charged for low carb foods and healthy drinks are higher and the consumption of water and natural juice is increasing at the expense of soda drinks. It is very common for the majority to adopt minority

consumption behavior and tastes, especially in the U.S. (e.g., Jazz, R&B, and rap music). As such, salsa overtook ketchup consumption in the U.S. in the 1990s.[30] Thus, the peripheral is becoming the core. This transformation will only accelerate in the next few decades as minorities collectively become the majority in the U.S. Consolidators will emerge to create and serve the mass market for each ethnic minority.

Another key area for revitalizing markets is via offering luxury for the masses. Golf used to be confined to country club memberships, but has now become a mass-market sport and growing rapidly in global markets. As the number of affluent people continues to swell around the world, the profiles of the consumers of luxury products are starting to look very different from traditional buyers. "Masstige" is the term coined by L'Oréal to market prestige to the masses: New segments of buyers are able to afford everyday luxury (e.g., designer fragrances, Starbucks, and imported beers), affordable luxury (e.g., designer eyewear and Coach), and even accessible core luxury goods (e.g., Gucci and Prada) around the world. Making luxury affordable for the masses revitalizes an industry as well. For example, Leo Chen became the youngest CEO of any company traded on the New York Stock Exchange (NYSE) with Jumei, by focusing on flash sales of brand-name cosmetics in China.[31] Luxury car makers are also getting into masstige thinking by introducing more affordable versions such as the Porsche Boxster, Porsche Macan, and Maserati Levante.

Other key demographic indicators include working women and dual-income households, increasing ethnic cultural diversity, the decline of the middle class in all advanced countries, and the rise of the middle class in emerging markets. Overall, demographics are crucial drivers and make change predictable. They can become enablers to revitalize the industry (provided the industry does its research and listens to emerging market signals). Some of the global implications of the future that has already happened include immigration explosion[32] and the abandonment of fixed retirement age.[33]

Changing Policy and Regulation

Orchestrating regulatory changes represents a straightforward way of revitalizing an industry. The biggest changes often happen through regulation, and smart marketers have figured out how to use the government to bring about changes. Back in the days of the New Deal, phone and electric monopolies were created based on the idea of natural monopolies out of hundreds of contenders, which then accelerated growth as well as usage.

Since markets were not growing fast enough organically, the consensus after the first energy crisis in the 1980s was that international trade could stimulate growth. Thus, free trade agreements such as NAFTA, ASEAN, European Union, or bilateral trade agreements such as the one between Chile and the U.S. or the Caribbean Islands and the U.S. were put in place, enabling the countries to become buyers and sellers of each other's offerings. Under this arrangement, the advanced economy offers what the emerging market does not have (e.g., defense; military equipment) and the emerging market can offer agricultural products or raw materials that the advanced economy does not have. Similarly, the WTO redefined and revitalized whole sectors when it was founded back in 1995. Mandatory consumption and health care reforms continue to impact health care delivery, equipment, and the pharmaceutical industry, which together make a $2 trillion industry in the U.S.

Similarly, Fed-mandated consistently low interest rates (cheap capital) caused a boom and ultimately a bubble in the housing market (which then led to a great recession). However, lower interest rates also help the B2B sector as firms can invest in machinery and equipment easier. Naturally, businesses also lobby with federal, state, and local governments for tax rebates and cuts to improve their financial outlook.

Growth of Emerging Markets

Even though the West usually takes the benefits of the industrial revolution for granted, there are many places in the world where it still has not made much difference. The largest opportunities may still be in front of us. The economic development of emerging markets represents a win-win, encouraged and supported by the governments of both developed and developing countries. C.K. Prahalad powerfully argued that it is possible and crucial to serve the bottom of the pyramid profitably but it will take a new mindset to do so.[34] There are 4 billion underserved or unserved people that survive with less than $1500 a year and many live under $2 a day. Yet these are also consumers; the private sector plays a critical role in alleviating poverty and it can do so profitably. "Democratization of commerce is based on everyone having the right to exercise their roles as micro consumers, micro producers, micro entrepreneurs, micro investors, and micro innovators."[35] For example, Kiva.org enables micro-investors from around the world to view business plans of micro-entrepreneurs from the base of the pyramid and invest as little as $25. While the marketing function cannot create purchasing power, it can make

products and services more affordable and help convert latent demand into actual demand, and serve as a vital source of entrepreneurial opportunities.[36]

Speaking of opportunities for entrepreneurs, the base of the pyramid actually represents $5 trillion in Purchasing Power Parity! However, the market is extremely diverse in terms of literacy, geography, income, culture, religion, and so forth. As such, no universal model can capture the entire opportunity, and market segmentation is necessary. For example, consider the following consumers:

A slum owner lives without clean drinking water and sewage but with kitchen appliances, cell phone, and color television…
A poor single mother invests in her son's education through private tuition as she struggles to put food on the table…
A farmer invests in new cattle before fixing his family's house…[37]

Ultimately, creating self-sustaining economic development will also be key for these segments. Accelerating global trade and prosperity requires innovations not only in terms of product development but also in business models. Large firms must work together with civil society organizations and local governments. Millions of local entrepreneurs are emerging to serve these opportunities. "In the 'underdeveloped' countries of the world, the more 'glamorous' fields such as manufacturing or construction are generally highlighted while marketing is treated with neglect…Yet marketing holds a key position in these countries…Marketing is also the most effective engine of economic development."[38]

Current opportunities in emerging markets include retailing, fast-moving consumer goods, micro-finance, telecom, and agri-business. Emerging opportunities are in computing, health, and wellness-oriented food, health care, education, pharmaceuticals, and energy. Future opportunities will include affordable and modern housing, water, and transportation. Taking advantage of these opportunities will require an innovation sandbox approach (new product development with constraints), emphasizing scalability (e.g., Amul and Nestle milk processing), price-based costing (i.e., designing with ultimate price in mind), modern technology (to decrease variable cost), global standards (quality, safety, and sustainability). For example, GE successfully used a reverse innovation approach to develop a $1000 handheld electrocardiogram and a portable ultrasound machine for emerging markets, which it was then also able to market in developed markets as well.[39]

Building an ecosystem consisting of large firms, small- and medium-sized enterprises, micro-entrepreneurs, civil society organizations, and the public

sector is also critical. Finally, it is important to recognize that value is and must be co-created[40] (e.g., BP biomass stove) based on a satisfactory balance between global versus local, lean organization, and local marketing research.

The demand unlocking that Wal-Mart applied at the population level also applies at the income level where the new demand comes from the slums and other underdeveloped, underserved markets. For example, the best-selling denomination of shampoo in India is the single-use pouch which is much more affordable than a bottle. Not only is there room for three largest players to serve the base of the pyramid it is also their social responsibility. As we will discuss in Chap. 4, growing the pie is not only a profitable strategy for the #1 player in order to revitalize a mature industry, it is also socially desirable and necessary to serve the base of the pyramid.

The Middle of the Pyramid: In addition to the base of the pyramid, there is an aspiring middle class of around three billion people globally, which is increasing in number. They are already brand-conscious and have modest but increasing amounts of discretionary income for education, health, energy, transportation, and personal care. The rise of the brand-conscious middle class around the world is causing mind-boggling change. The move from unbranded to branded, unregulated to organized, is considered to be a $10 trillion market in India ($3.5 trillion) and China ($6.5 trillion) alone. The Chinese version of the American Dream goes along the following lines: "I want two houses—a house in the city and a house in the country. I want two children. And I want to send them to school in America. I want beautiful clothes, a handsome, educated husband, and time to enjoy it all."[41]

In 2020, the upper-middle-class is estimated at some 320 million households made up of 1 billion consumers in China and India.[42] Deep understanding of region, city, rural community, and gender roles is crucial to serving this emerging middle class. In some ways, e-commerce is even more important in rural areas because large supermarket stores may not exist and e-commerce enables much-needed access. Providing good value for low cost will be critical. Offerings will need to be customized. Thinking of big vast possibilities becomes the new reality with an accelerator mindset. As the new middle class begins to consume more, there will be a significant shift from consumption of unbranded products to branded ones.

However, policy-makers need to make sure that everyone has opportunities and not let income inequality get extreme.[43] The number of billionaires in China was 373 in 2018 (as opposed to 123 in Germany) and that number continues to grow around the globe.[44]

The lingering question is what happens when we add another four billion people to those two billion that are already producing and consuming in a

systematic manner. First, the pyramid will start looking more like a diamond, and as the new middle class consumes more, the aggregate demand will start putting pressure on scarce resources, causing the prices of commodities to fluctuate.[45] As the new middle class begins to consume more, there will be major supply-constraints and price volatility.

Furthermore, sustainability will become a major driver of product development. P&G is already producing shampoo bottles produced from beach plastic.[46] Adidas produced and sold one million shoes made out of ocean plastic in 2017 and has committed to using only recycled plastic in all of its products, offices, outlets, centers, and warehouses by 2024.[47] Meanwhile, those with $2 daily income continue to represent a $5 trillion market based on purchasing power parity. Thus, advanced economy consumer brands such as Unilever, Nestle, and P&G will increasingly be more active in emerging markets and many innovations from emerging markets will be adapted to developed economies.

In summary, industries are not born by innovation and entrepreneurship alone; they are subject to several other key influences. While theory offers the alignment of strategy and structure or emphasizes the prominent role of shakeouts for industry organization, the real key is neither strategy nor structure but access to capital. Smart entrepreneurs actually succeed by aligning closely with capital more so than technology or customers! Thus, financiers serve as market makers through capital flows (e.g., Singapore sovereign fund) and whoever gets the blessing of private equity or venture capitalists is well on the way to success. In the old days, this function was served by kings and other wealthy people. John Rockefeller knew how to access capital and JP Morgan was a great market maker because he knew to provide capital to the right industries. So we must reiterate that capital is vital in organizing an industry. However, once an industry is organized and it is growing well, it needs scale and efficiency. Scale can come through public policy, government mandate, de facto standards, or shakeout and mergers. Then the industry begins to struggle for growth. Firms in mature markets can grow through market share gains but this approach gets tough quickly and is subject to the law of diminishing returns, so the main path at this stage is through diversification. Thus, the large players offer more product lines and become a one-stop-shop. The point of diversification is not to become a conglomerate but rather to identify a common core of unity through technology, process, or customers. For example, an insurance company can go from offering life insurance to property, casualty, for car, motorcycle, boat, home, and really anything with asset value, and become a full-line generalist. The next step is to go global.

Before we focus on specific strategies based on firm typology, it is important to recall again that the structure for a mature industry is like a shopping mall center where the full-line generalists (three anchor stores) compete on value and price and numerous niche companies compete on differentiation and service, including support services. The industry has now become efficient but is not growing. The firms need to ask themselves "What business we are in? What business we should be in?" and revitalize themselves through restructuring. In essence, it is the struggle for growth that gets an industry revitalized. Sony is a good example of a company that is going through this process (see Box 3.2).

Box 3.2 Sony's Soul-Searching

With consecutive net losses in recent years, Sony is certainly in need of some soul searching. In particular, the company has stated that "it will no longer look to pursue growth in business areas where intense competition puts it at a disadvantage." After selling its Vaio PC business to a private-equity fund in 2014, and spinning off its television sets, and audio and video divisions, the company envisioned itself in three categories:[48]

Growth drivers: Game and network services, pictures, and music. Sony wants to invest in these lines further to increase sales and return on investment (ROI). R&D will be utilized to develop applications for smartphones as well as health care. It will also focus on expanding the user base with the PlayStation gaming platform and will focus on growth areas such as streaming.

Stable profit generators: Imaging product and solutions for video and sound. Here, the generation of steady profit and positive cash flow will be emphasized.

Volatility management: TV and mobile communications. Sony wants to be more selective in this area and become profitable by limiting investment. Considered options include spin-offs and alliances.[49]

In other words, Sony is focusing on Sony Pictures, PlayStation, and making image sensors for Apple gadgets. Growth drivers, stable profit generators, and volatility management sound curiously like stars, cash cows, and question marks, based on Boston Consulting Group's (BCG's) famed growth-share matrix. Refocusing by pruning and being a content aggregator should serve Sony well at this juncture. It could focus on fast-growing developing markets where the competition is less entrenched. It can also use its R&D muscle to launch affordable but beautiful products designed specifically for developing markets.

The Sony brand still carries a lot of cachet around the world. One approach would be to offer more products along the price-quality continuum, but in fewer categories, so they can fully utilize this brand equity. They need to be competitive in segments beyond the high-end. This would require redesigning the low-end of the line for developing markets rather than outsourcing it to generic manufacturers which pump out me-too products for Sony as well as many other brands that dilute the brand image.

Sony would be well served by regaining one of its original strengths: creating great low-cost products for the emerging market. Historically, it began with the transistor radio which was a revolutionary product; it was cheaper and more versatile than the traditional vacuum-tube radios it replaced. One idea would be to follow the likes of HP and Phillips and create a separate venture arm and launch a sub-brand that focuses on affordable technology and products and services. Essentially, the company's DNA is based on technology-enabled affordable products, and soul-searching may necessitate Sony to go back to its roots to revitalize.

In the next chapter, we discuss the ten ways to innovate and revitalize industries for growth.

Key Takeaways

- All industries evolve in pursuit of two objectives: growth and efficiency; growth comes from expanding markets and expanding to new markets; efficiency through increased productivity, automation, or lowering costs.
- All industries go through start-up, growth, maturity, and aging phases.
- *Start-up Phase*: For a new industry, growth is a given and what is lacking is efficiency/productivity. Thus, in the early stages of the evolution of an industry, the emphasis shifts toward efficiency.
- *Growth Phase*: It is imperative for aspiring generalists to avoid a myopic focus on building share in a single product market. Instead, the primary objective for the generalist must be to become a full-line generalist by creating a one-stop-shop—whether it is a manufacturer, distributor, or retailer.
- During the growth phase, these are the strategic following options: market expansion, market penetration, complementary diversification, and product expansion.

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- Manufacturers are often limited to geographic expansion, and distributors usually grow by product expansion.
- *Maturity and Aging Phase*: Here, diversification becomes complete, and the struggle is revitalization of the industry. In order for the industry and its players to survive, they must reposition and switch to new technologies. An aging industry essentially becomes a specialty industry.
- Both government policy and market mechanisms can create scale and efficiency.
- Efficiency through scale typically results from the following scenarios: shakeouts and mergers, shared standards and costs, government mandate, and regulated monopolies.
- The use of shared standards/costs can also boost licensing, contract manufacturing, and the creation of platforms and ecosystems.
- It is worth remembering that barriers to entry in many sectors are substantially lower in the information/digital age which increases the number of new entrants, building up of excess capacity, and the intensity of ensuing shakeouts.
- In general, economies of scale benefit the procurement function more so than manufacturing.
- After an industry achieves scale efficiency and scope capabilities, they can evolve to be redefined. Industries that were expected to die can make a comeback.
- The theory of vacating markets is real; one major wave has been from the U.S. to Japan. Vacating early for healthy returns is much better than being surrounded and forced to surrender.
- While it is true that radical product innovations typically come from outside, process change/innovations can arise from within, and this can also revitalize the industry.
- The four key drivers of market revitalization are substitute technologies, changing demographics, changing policy and regulation, and the growth of emerging markets.
- Many markets were revitalized by the internet and e-commerce and now the same process is recurring with mobile commerce and AI.
- The aging population is a key demographic shift. Other key demographic indicators include working women and dual-income households, increasing ethnic cultural diversity, the decline of the middle

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class in all advanced countries, and the rise of the middle class in emerging markets.

- The rise of the brand-conscious middle class around the world is causing incredible economic change, especially in countries like China and India. Deep understanding of region, city, rural community, and gender roles is crucial to serving this emerging middle class. Providing good value for low cost will be critical.
- Sustainability will become a major driver of product development.
- The firms need to continuously ask themselves "What business are we in? What business should we be in?" and revitalize themselves.

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for HBR). The marketing myopia concept is widely considered as the most influential marketing idea of the past century. Interestingly, it was Drucker (1949) who questioned the existing business definitions much earlier than Levitt:

"[I]t is the business of a railroad to provide transportation…even the development of competing forms of transportation, such as air services, waterways, and highway transportation, would contribute directly to the economic performance and profitability of the railroad" (Drucker 1949, p. 205). Levitt (1975) conceded that marketing myopia was not a novel idea and that he was heavily influenced by Drucker (1946, 1954) in developing his manifesto.

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