CHAPTER 1

The Evolution of Markets and the Dynamics of Competition
The last decades of the twentieth century were prosperous for most companies in the developed world. A stable period of peace, together with a strong demographic increase and a higher life expectancy contributed to this prosperity. To these factors we must also add the role of growing company marketing sophistication. Marketing departments had the use of large budgets to develop and launch new products, and educate and communicate with consumers toward generating product trial, repeat purchase, and brand loyalty.

But reaching success at the beginning of the twenty-first century is more difficult. Here are the main reasons.

1.1 In Consumer Packaged Goods, Distribution Concentration Has Increased Greatly

In the 1950s, distribution in the United States and Europe was largely in the hands of small independent retailers. Today, as a result of innovative distributors—companies like Wal-Mart and Ikea—and mergers and acquisitions, much distribution is in the hands of giant corporations and multinationals. Today,
Lateral Marketing

hypermarket and supermarket chains control (in the food sector) more than the 80 percent of final consumer purchases. And major franchises—McDonald’s, KFC, Subway, Domino’s Pizza—account for another major share. There are similar situations across all industries.

The bottom line is that power has been transferred from the manufacturers to the distributors. The distributors own the shelf space and decide which manufacturers to favor and how much shelf space to give them. They charge slotting fees and exit fees and virtually dictate the allowances and promotions they require.

Distributors respond by concentrating. Channels are concentrated in the hands of fewer distributors with a lot of power.

1.2 The Number of Competitors Has Been Reduced, but the Number of Brands Has Strongly Increased

Many producers were not able to survive the strong pressure of the giant retailers and either disappeared or were acquired by the “big fishes.” Although there were now fewer producers, these producers continued to introduce more brands into the market. The following chart shows the growing number of registered brands in three countries between 1975 and 2000.¹

Effective Registrations by Country of Origin

<table>
<thead>
<tr>
<th>Year</th>
<th>United States</th>
<th>United Kingdom</th>
<th>Germany</th>
</tr>
</thead>
<tbody>
<tr>
<td>1975</td>
<td>30,931</td>
<td>11,440</td>
<td>12,828</td>
</tr>
<tr>
<td>1995</td>
<td>85,557</td>
<td>33,400</td>
<td>21,934</td>
</tr>
<tr>
<td>2000</td>
<td>109,544</td>
<td>65,649</td>
<td>70,279</td>
</tr>
</tbody>
</table>

Three factors led to the increased number of brands:

1. First, there was the need to adapt products to the specific needs of certain groups of consumers (segments), and even to smaller groups (niches). This was established through the application of segmentation strategies.

2. Second, more brands make competitor attacks more difficult. It is harder to beat many brands all at once than to beat just the one that dominates a given category. Market atomization also discourages new competitors from entering the market.

3. Third, with more brands in the portfolio, the producer can negotiate better with the distributor. A higher discount offered on one brand compensates for a lower discount on another brand in the portfolio.

Multinationals and other corporations have been gaining in power. There are fewer players, but a higher number of brands.
1.3 Product Life Cycles Have Been Dramatically Shortened

New products last for a shorter time. Why?

In the first place, companies find it easier to launch new brands, especially if they have excess production capacity. They can introduce new ingredients, flavors, features, designs, or packaging with minimum changes in production processes. They can plan to absorb all the development costs in first-year sales and pray that the product can sell for a few more years.

In the second place, consumers increasingly are ready to try the new brands that they see advertised. They are willing to drop their previous brand if the new one is more satisfying. In turn, they may also drop the new brand if it fails to satisfy.

In the third place, consumer markets can be characterized as an arms race. Every new brand takes sales away from existing brands. Hurt competitors have no other way to recover than by also launching new brands. Other competitors then must retaliate with new brands, and on and on the cycle goes.

In the hypermarkets, the new brands take more shelf space, and as a result the desperate war for shelf space intensifies. The manufacturers move from brand management to category management to optimize the profitability of their scarce space.

Launching new brands is costing less. The dynamic of launching new brands is currently accelerated. New products survive in the market for shorter times.
1.4 It Is Cheaper to Replace than to Repair

Hard goods don’t last as long as formerly. When they break down, it is easier to replace them with a later model than to repair them. Consider the following examples:

- A new laser printer costs around $180 and can be delivered in one day. Repairing it can cost nearly $120 and may take two weeks. Why would a consumer choose the old printer that may break down again?
- A new electric razor costs less than $60 and you can take it home immediately when you buy it. Repairing it can cost nearly $100 and may take two to three weeks. All shops recommend that you buy a new one.

It is often cheaper, faster, and easier, and saves you both money and time, to buy a new product than to repair it. The resulting culture is one that uses and accepts disposable products. Electrical appliances such as television sets or videotape recorders used to last seven or eight years, and now are replaced in two or three years. The acceptance of product disposability further fans the fever of new product launches.

Manufacturing processes are so efficient that replacing becomes cheaper than repairing. This accelerates the frenetic rhythm of new product launches.
1.5 Digital Technology Has Provoked a Revolution in Many Markets

Today everything can be transformed into zeros and ones: images, sounds, voice, text, and data. All are reproducible. Still pending is the ability to duplicate smell and flavor. It may be only a matter of time.

Digital technology has led to a whole new range of products: computers, interactive TVs, personal digital assistants, digital phones, smart dishwashers, microwaves, toasters, and so on. Technology is being extended to the most simple products: Books now come with sound and dolls are singing 20 melodies. Global Positioning Systems (GPS) are leading to a new set of satellite services such as locating stolen cars and missing people and animals.

And finally there is the Internet putting people in contact with millions of other people at almost zero cost. The Internet is still creating a revolution in the information, consumption, and communication practices of consumers; we are only at the beginning of this revolution.

---

The digital era facilitates the appearance of new products and services. Technology accelerates the rhythm of innovation and the number of new products. The Internet facilitates the appearance of new brands and ways of capturing business.
1.6 The Number of Trademarks and Patents Is Increasing

More new products are being developed to replace products that have been with us only a few years. As technology gets better, there are more upgrades to these new products. Applications, per year, to the U.S. Patent Office almost doubled during the 1990s. It is getting difficult even to register trademarks with five or fewer letters since most of them have already been registered.

The growth in the number of patents and trademarks proves the increasing competitiveness of the markets.

1.7 The Number of Varieties of a Given Product Has Increased Radically

In any product category that you can name, you will find a greater number of varieties than in the past. Some examples:

- Go into a supermarket and write down the names of all the yogurts you can buy, by flavor and sizes. You can probably list over 50 different yogurts: plain, with sugar, with vanilla, with pieces of different fruits, various flavors, low-fat or nonfat, mousse, and so on.
- Look in any car magazine and count how many different types of vehicles and brands or variations are available:

station wagons, minivans, SUVs, or small cars; diesel or no diesel; three, four, or five doors; different alternatives of engine power; and so on. In Spain, more than 450 models and brands can be bought at this moment.

- Take a look at the yellow pages and adult education brochures in your city and list all the types of hobby courses. Whereas some years ago the most frequent were courses in European languages, painting, dancing, music, and some sports, today you can find rarer interests such as tai chi, acupuncture, Japanese, Arabic languages, and hundreds of others.

Within a given category, the number of varieties available for consumer choice has increased exponentially. Categories are saturated with varieties.

1.8 Markets Are Hyperfragmented

Companies, in their search for differentiation, have identified and created more and more segments and niches, resulting in highly fragmented markets. Ultimately this will lead to one-to-one customized products and marketing. This makes it very difficult to find profitable market cells offering a promising return on investment. Additional volume will be incremental rather than substantial for every new product launched. The profits are shared until they are spread very thin.

Markets are fragmenting into small niches, which are less profitable.
A normal citizen of a large urban area is daily exposed to an average of 2,000 advertising or communication stimuli. Out of these, only a few can be recalled at the end of the day. Advertising, once the most efficient way for brand building and the motor of new products penetration, is now threatened by its own growth, as proliferation of advertising is causing people to notice ads less.³

A brand manager launching a new chocolate bar today has real problems in communicating it effectively. Whereas several millions of consumers might have tried it some years ago when most people watched the same limited media, today's consumers may be watching any of 100 television stations, listening to any of 200 radio stations, or reading any of 1,000 magazines. If these consumers are not zapping the TV ads, they probably aren't watching TV at all and are instead spending their time at their computers or in outdoor sports or activities. Today's audiences are so diverse in their media habits that companies have to invest in many media to reach them. Advertising costs, as a result, may be too high.

³Jack Trout and Steve Rivkin proved this with interesting data: “At eighteen years old, a youth born in the UK has already been exposed to 140,000 TV ads. In Sweden, an average consumer receives nearly 3,000 daily commercial impacts. In 1994, the six TV channels of Madrid broadcasted 508,533 TV ads.” See Jack Trout and Steve Rivkin, The New Positioning: The Latest on the World’s #1 Business Strategy (New York: McGraw-Hill).
Advertising saturation is occurring. 
Market segments are smaller and smaller. 
Communicating a new product is getting more expensive. It is necessary to be present with a brand in many media to obtain good coverage. This makes new product launches more expensive.

1.10 The Capacity of Obtaining Space in the Mind of the Consumer Has Been Reduced

From the previous discussion, one can understand how difficult it is to obtain space in the minds of the customers. It has the feel of a “Mission Impossible.”

Consumers have become tremendously selective persons regarding products and advertising. They ignore most ads without having the feeling that they are losing anything important. Consumers have learned to look without seeing, to hear without listening.

Go to a doctor’s office and observe someone in the waiting room looking through a magazine. Although exposed to more than 40 ads, that person probably isn’t reading more than a few. Consumers need only half a second to pass by an ad.

The challenge is not only to fight against so many competitive products, brands, and ads, but also to fight against a closed consumer mind toward commercial communications. If your brand lacks novelty or special value, it will be ignored.
Claims that companies make about products such as “new,” “improved,” “better flavor,” or “more natural” are strategies to capture the attention of customers. They are trying to promote novelty in order to fight against saturation.

Consumers have become selective. They are increasingly ignoring commercial communications. Novelty may be the only way to catch the attention.

Conclusion: Markets Are Much More Competitive

Doing marketing today is more complicated than ever. This is not to say that challenges did not exist in the past, but they certainly are different today. Now the challenge is to fight against fragmentation, saturation, and the storm of novelties that appear daily in the markets where we compete (see Figure 1.1).

And these thoughts bring us to an obvious and immediate conclusion: If (1) innovation and new products are the basis of competitive strategy, and (2) the rate of new product success is low, should it not be a high priority to find ways of creating and launching more successful products? In fact, this is one of the main objectives of lateral marketing.

We will start by analyzing how new products are conceived today. We will uncover this process in the second chapter.
Figure 1.1 Marketing Overview
Summary

Innovation is the key and the basis of competitive strategies today. The rate of new product introductions is frenetic, but the failure rate is high. It is absolutely crucial to understand how innovation is done today. We need to split the marketing process into pieces and analyze it in order to understand the type of novelties it might produce.