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Game-changing strategies: how to create new market space in established industries by breaking the rules

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Common sense as well as academic research argues that attacking bigger competitors will most likely lead to failure. For example, a series of studies undertaken at London Business School in the early 1990s examined how new market entrants in several UK industries fared against much bigger established competitors[1]. Not surprisingly, the failure rate of new entrants was quite high – more than 85% of them failed within 5 years of entry. The established competitors had few difficulties repelling these smaller attackers: the studies found that the No. 1 ranked firm in a particular industry had a probability of about 96 percent of surviving as No. 1 – an almost certainty[2]. For the second ranked firm the probability of survival was 91% and for the third ranked firm 80%. In fact, most of the turnover that occurred among the top 5 in an industry was due to mergers rather than smaller entrants out-competing market leaders.

Yet, without disputing the statistics, we all know of examples of companies that attacked much bigger competitors with great success. In several instances, not only did the smaller firm survive but often managed to emerge as one of the leaders in the industry! IKEA did it in the furniture retail business, Canon in copiers, Bright Horizons in the child care and early education market, MinuteClinic in the general health care industry, Starbucks in coffee, Amazon in bookselling, K-Mart in retailing, Southwest, easyJet and Ryanair in the airline industry, Red Bull in the carbonated soft drinks industry, Lulu in publishing, Enterprise in the car-rental market, Netflix and Lovefilm in the DVD rental market, Honda in motorcycles, Wit Capital in investment banking, Skype in telephony, Priceline in the travel agent market, Casella in the wine market, Metro International in newspapers and Home Depot in the home improvement market. The list could go on!

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The secret of success: A new business model

What explains the success of these outliers and what can we all learn from their experiences? After studying more than seventy such firms, I believe that the answer to this question is simple enough: successful attackers do not try to be better than their bigger rivals. Rather, they actively adopt a different strategy (or business model) and aim to compete by changing the rules of the game in the industry. Over and over, what I have observed is that significant shifts in market share and company fortunes took place not by trying to play the game better than the competition but by trying to be different – in a sense, by avoiding head-on competition.

Table 1 (overleaf) lists a number of such business-model innovators from a variety of industries – both high-tech and low-tech, growing and mature.

[1] S. Davies, P. Geroski, M. Lund and A. Vlassopoulos (1991): "The Dynamics of Market Leadership in UK Manufacturing Industry, 1979-1986," Centre for Business Strategy, LBS Working Paper No. 93; and P. Geroski and S. Toker (1993): "The Turnover of Market Leaders in UK Manufacturing: 1979-1986," mimeo, London Business School.

[2] There is only one major exception to this generalization: in cases when the attacker utilizes a dramatic technological innovation to attack the leaders, seven out of ten market leaders lose out – see the fascinating study of James M. Utterback Mastering the Dynamics of Innovation, HBS Press, 1994.

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Examples of Business-Model Innovators	
The Body Shop	University of Phoenix
Amazon	Skype
Charles Schwab	Bright Horizons
Swatch	Metro International
Starbucks	Home Depot
IKEA	Bloomberg
Dell	eBay
Southwest and easyJet	Sephora
Kresge (K-Mart)	Travelocity
CNN	Priceline
Lulu	Akimbo
Nucor	Netflix and Lovefilm
MinuteClinic	ING Direct
Canon	LibraryThing

Table 1

Consider, for example, Enterprise Rent-a-Car, the biggest car rental company in North America. Rather than target travellers as its customers (like Hertz and Avis did), Enterprise focused on the replacement market (i.e. customers who had an accident). Rather than operate out of airports, it located its offices in downtown areas. Rather than use travel agents to push its services to the end consumers, it uses insurance companies and body shop mechanics. Rather than wait for the customer to pick up the rental, it brings the customer to the car. In short, Enterprise built a business model that is fundamentally different from the ones utilised by its biggest competitors. This allowed it to start out in 1957 as a new start-up firm in the industry and grow into the biggest competitor in less than 50 years.

Consider also the case of MinuteClinic, a company founded in 2000 and already an industry leader in the retail-based health clinic industry in the US. The company is based on the premise that certain simple health problems can be more quickly and cheaply diagnosed and treated at a walk-in clinic than in a doctor's office or an emergency room. Unlike traditional clinics that treat a wide variety of health problems, the company treats only common ailments such as strep throat and ear infections. It employs nurse practitioners armed with software that helps them test for and treat a handful of medical conditions. The software has the most up-to-date medical guidelines for diagnosis and treatment and applies strict rules that help ensure consistency of service. A doctor is generally available for phone consultation only. Prices are posted for all to see. If a patient comes in with a complaint not on the list or symptoms that indicate something more serious, she is referred to a doctor or an emergency room without a fee. The service does not require an appointment; is quick (about 15 minutes from start to finish); and it's cheap – a visit to test for strep throat costs \$44 versus an average of \$109 at a doctor's office or \$328 in an emergency room.

Both examples highlight a generalisation that's at the heart of this book: without the benefit of a new technological innovation, it is extremely difficult for any firm to successfully attack bigger competitors or to successfully enter new markets where big established players rule. The strategy that seems to improve the probability of success in these situations is the strategy of breaking the rules – of discovering and exploiting a different business model from the one that established and bigger competitors employ in a given industry.