Imagine the following scenario: you wake up one morning and decide that you don’t like the way your 70-year old parents look. Nor do you think they live an active-enough life. You decide that what they really need is a change – instead of golf, they should take up squash; instead of looking like 70-year olds, they should adopt a dietary and fitness regime that would make them look young again; and instead of spending their time watching TV, they should visit the gym twice a day. You are so determined to achieve this transformation that you invest most of your free time in it, urging your parents along and giving them advice what to do and when. In your quest to make them teenagers again you know no boundaries.

How stupid does this sound? Yet this is exactly what we have been trying to do with big, established companies. Not satisfied with how “innovative” they are, we have come up with all these “valuable” ideas and advice to make them more entrepreneurial so that they too – like all those agile and pioneering start-up firms – can create new markets and lay the foundations for the industries of the future.

How? By developing the cultures and structures of the younger, start-up firms. Look, we tell them, don’t you want to be like Body Shop or Cisco or Virgin? All you have to do is adopt their structures, cultures and processes. Who says elephants can’t dance? Just go on a diet and lose some of that excess weight, learn a few tricks from the younger firms and off you go.

Unfortunately, the probability that such a thing will happen is equal to the probability that you will convert your parents into teenagers again – zero.

Teaching elephants how to dance and other silly ideas

Established companies do not have the skills, mindsets or attitudes to create new markets. Nor can they easily adopt the attitudes and mindsets necessary for market creation because these attitudes and mindsets conflict with the ones they currently have and need in their existing businesses. However, say Costas Markides and Paul Geroski, they do have the skills, mindsets and attitudes that are ideal for taking new market niches developed by others and scaling them up into mass markets.
It's not that the advice is bad. If we ignore who the recipient of the advice is for a moment, we cannot but marvel at the logic of the advice. For example, Gary Hamel has proposed ideas such as making the strategy process democratic and bringing Silicon Valley inside the organisation as ingredients to strategic innovation – who can argue with that? Similarly, one of the authors of this article has argued that corporations could learn from the success of the capitalist system by importing into their organisations those features of capitalism (such as decentralised allocation of resources, multiple sources of financing and constant experimentation) that promote innovation – sensible stuff indeed.

And others have advocated the creation of separate units or divisions within an established organisation where new disruptive-growth businesses could be nurtured. These are all logical and creative ideas. But they will not work when it comes to creating new markets.

**First the bad news**

The problem is not that established firms do not agree with these ideas or that they do not want to adopt them. On the contrary, they will find our recommendations (such as developing cultures that encourage experimentation or making their strategy process democratic or even developing a self-cannibalising attitude) constructive and useful. But despite agreeing with all of this, they will not succeed in adopting these attitudes and cultures.

This is because they already have the set of skills and attitudes that they need to compete successfully in their existing businesses. This set of skills and attitudes makes them good at *exploitation*, which is exactly what they need to do well in their mature businesses. Now, all of a sudden, we want them to also adopt a set of skills and attitudes that will make them good explorers. But the skills and attitudes needed for exploration co-exist uneasily with the skills and attitudes needed for exploitation – the two often conflict with each other. Attempting to bring on board the skills of exploration will most likely create a reaction from the organisation. Its antibodies will go to work and the new skills and attitudes will be rejected as unwanted foreign organs.

Think about it. Even a cursory comparison of the markets that established competitors inhabit and a market that has just been created should alert us to the fact that these are wildly different beasts. Is it sensible to expect the same organisation to develop the requisite skills and attitudes to manage such extremes effectively? (The point we are making here is not new. As early as 1961, Burns and Stalker made a similar point in their book *The Management of Innovation*.)

We have recently researched a number of industries to understand how new markets get created and how they evolve. Not surprisingly, there is a world of difference between what established firms need to do to be successful and what pioneers need to do.

Established firms compete in markets where success is based on cost advantages, clever segmentation of the existing customer base, effective control of distribution and strong branding.

What *they* need is a culture that promotes cost-cutting and manufacturing excellence; a structure that sets clear boundaries and lines of responsibility; systems and operating controls that keep a tight lid on costs while collecting and exploiting valuable customer information for marketing purposes; incentives that reward efficiency and discourage “unnecessary” experimentation; people that have strong marketing and manufacturing skills and who are happy to play according to the rules; and efficiency-oriented units that have relatively short time horizons but formalised roles and linking mechanisms.

Pioneers, on the other hand, compete in volatile and unpredictable markets characterised by high technological and customer uncertainty and high turnover.

What *they* need is a culture that promotes experimentation and risk-taking; a loose and decentralised product structure with limited hierarchy; internal processes directed towards the generation, selection and development of ideas; planning processes that are flexible and adaptable; incentives that reward new ideas and do not punish failures; people that are enthusiastic about new technologies and are eager to bet on seriously speculative projects in an effort to push the technological frontier beyond current knowledge; and small, entrepreneurial task-oriented teams that try out experiments without worrying about efficiencies or profits.

One can imagine the complexity of trying to set up structures, cultures and processes that facilitate exploitation of the firm’s mature businesses on the one hand while encouraging the exploration of new markets on the other hand. Though not impossible, this is so difficult that
firms that attempt to do it risk getting “stuck in the middle.” Perhaps this is the reason that has prompted several thinkers lately to advise established companies to “outsource” innovation.

Therefore, to repeat our argument: established firms do not have the necessary cultures, structures and attitudes to succeed in creating (or exploring) new markets. Even worse, attempting to “learn” or “adopt” the skills and attitudes of an explorer will not do them any good – the skills and attitudes that they currently have (and need) to compete successfully in their mature businesses cannot easily co-exist with the skills and competencies needed for exploration.

This means that attempting to incorporate the new skills in the existing organisation can produce only one of two outcomes. Either the existing culture and attitudes reject the new transplants; or the transplanted skills and attitudes take over and destroy the very things that have made the established firm a success (and which it still needs to be successful in its existing business). Either way, the outcome is unpalatable.

This might help explain a paradox in strategic innovation: despite a wealth of ideas and advice on how to strategically innovate, it is very rare to find strategic innovations that have been created by big, established firms. For example, in a recent book on radical innovation, (subtitled: “How mature companies can outsmart start up firms”), Leifer et al ask: “How many big companies pioneered the technologies and business models that now dominate e-commerce, personal computing, biotech and wireless communications?” The answer, according to the authors, is none. All available evidence shows that the majority of strategic innovations are introduced by newcomers in an industry (rather than established competitors). Now we know why.

Now the good news

No need to despair. Established firms may not be very good at creating new markets but, truth be told, they don’t need to be. Why? Because creating new markets is not necessarily the best strategy for them. What we have seen in our examination of how new markets get created and how they evolve is that the companies (or individuals) that create new markets are not usually the ones that end up dominating these markets. Rather, it is the companies that time their entry into new markets perfectly, to coincide with the birth of the mass market. Most of the time, pioneering simply does not pay.

Amazing as it may sound, the widely held belief that pioneers enjoy first-mover advantages and grow to market dominance is not correct. When we completed our research, one of our findings that stood out was that the companies that created new markets were unlikely to be the ones that ended up dominating those markets. To the contrary, most (if not all) of the pioneers in a new market disappeared without a trace. The companies that ended up dominating a new market were not those that created the market nor were they the ones that rushed to enter it first. Rather, it was the companies that timed their entry to coincide with the growth of the mass market.

Now, this assertion might strike many readers as extravagant. Granted, the universally accepted view that pioneering is a superior strategy has received some criticism lately by researchers. But to claim that pioneering almost never pays? Surely this cannot be true.

Yet, this is exactly the picture that emerges if we examine how new markets get created and how they evolve.

For example, there have been more than 1,000 companies in the US car industry at one time or another and more than 100 emerged in the first 15 years of this new market’s life. Yet it was Henry Ford who conquered the market almost 30 years after its creation, even though Ford was neither the first nor the only producer of cars in the US at the turn of the century. All the early
The creators and early pioneers of new markets are almost never the ones that conquer the market

pioneers disappeared quietly and nobody has heard of them since.

We’ve seen this pattern repeat itself in industry after industry. On the creation of a new market there’s a mad rush of entry to colonise it. At some stage in the evolution of the market, a “dominant product design” emerges. As a result, those pioneering firms that happened to bet on this winning design survive; all others die.

The dominant design is a basic template or “core good” that defines what the product is. Effectively, the winning design wins because it is cheaper, widely available and, therefore, an easy choice for consumers confronted by excessive variety. The problem for most pioneers who rushed into the market is that the arrival of the dominant design signals their death. All those firms that rushed in, trying their luck with all kinds of possible product designs, eventually exit the market when their designs lose out to the dominant design.

It is important to repeat and emphasise three points from all this:

- First, note that very few of the original entrants (the pioneers) survive the consolidation of the market – most disappear, never to be heard of again
- Second, the consolidators who win in the end are almost never the first into the new market. Their success is based on not moving fast but in choosing the right time to move – and that is rarely first
- Third, the things that consolidators do – such as entering at the right time, standardising the product, cutting prices, scaling up production, creating distribution networks, segmenting the market, spending huge amounts of money on advertising and marketing – are exactly the kinds of things that create what we (somewhat inaccurately) call “first-mover advantages”.

By doing these things, consolidators create buyer loyalty, get pre-emptive control of scarce assets, go down the learning curve, create brands and reputation, and enjoy economies of scale – all of which give them the advantage versus potential new entrants. Thus, even though colonists are chronologically first into the market, consolidators are the “real” first movers – they are the first to the market that counts: the mass market.

What does all this mean for us? Simple: the creators and early pioneers of new markets are almost never the ones that conquer the market.

If that is the case, why should established companies worry about creating new markets? Why should they listen to any of our advice, trying to convert them into innovators and pioneers? Are they not better off either waiting till the mass market is about to develop and then jumping into that market or, even better, creating the mass market themselves? The latter strategy, as we argue below, is in fact the area where mature firms have a competitive advantage over new, start-up firms. It goes without saying that this should, therefore, be the strategy they should focus on.

Even better news!

And the news keeps getting better. Not only does it not matter that established firms are bad at creating new markets but, even better for them, they have the skills and competencies that allow them to excel in what is really the key in conquering new markets – taking an early market out of the hands of the pioneers and scaling it up into a mass market.

This is not automatic or a matter of luck. Creativity and hard work is required if a newly-created market is to actually grow into a mass market. The world is littered with promising and exciting market niches that have never made the big breakthrough into stardom simply because nobody did the right things to grow them.

What exactly is required to grow market niches into mass markets? Our research has uncovered the following strategies:

- Target the average consumer (rather than the early adopters) by emphasising different product attributes to those that the pioneers focus on. In particular, emphasise low prices that help grow the market
- Support low prices by driving down costs. To do so, build market share quickly so as to enjoy economies of scale and learning benefits. This can be achieved by creating bandwagon effects
- Reduce customer risk through branding and communication. Help build as big a consensus as possible across consumers to broaden the initial installed base and widen the ultimate market
firms innovate. The area they focus on. This is how big established firms scale up a mass market into mass markets. This, therefore, should be the area where established firms have the necessary financial resources, the market power and reputation needed, the brand-building skills, and the manufacturing and marketing skills to convert niche markets into big, mass markets. Therefore, to repeat our thesis: scaling up a new market and scaling it up is an important and value-creating activity as discovering the new market in the first place.

Remember all those pioneers who rushed into new markets only to lose out to those firms that timed their entry to perfection and conquered the market by standardising the product, cutting prices, scaling up production, creating distribution networks, segmenting the market and spending huge amounts of money on advertising and marketing? Well, these are exactly the kind of things that established firms are good at. Why not focus on the things that give them a competitive edge over the start-up firms and, by the way, allow them to dominate the new market?

Taking a new market and scaling it up is as important and value-creating an activity as discovering the new market in the first place. Unfortunately, while everybody seems to know – and celebrate – what inventors and pioneers do few people seem to appreciate that consolidation is equally (if not more) innovative. Henry Ford did not discover the car nor did he create the initial niche in which it was sold. Yet without his genius in creating a new way of making cars, the mass market in cars that emerged after 1909 may not have emerged for another decade or two.

Therefore, to repeat our thesis: scaling up a market is an important activity that requires as much creativity and innovation as the discovery of new markets. It is also the area where established firms have an advantage over start-up firms because they happen to have the requisite skills and competencies to convert niche markets into mass markets. This, therefore, should be the area they focus on. This is how big established firms innovate.

Resources


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