Article

Successful Share-building Strategies for High-technology Companies

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Abstract

Most past studies looked into marketing strategies for gaining market share used by firms in mature industries. This research investigated competitive strategies employed by high-technology companies to increase market share, and identified five types of effective share-building strategies. These strategies were found to differ considerably from those used by companies in mature industries.

Market share growth has usually been an important objective for most businesses. Increase in market share of a company normally means an boost in its profitability and performance. Past studies have consistently demonstrated that most businesses with high market share enjoy above average profit margins (Schoeffler and Buzzell, 1974; Buzzell, Gale and Sultan, 1975; Buzzell and Wiersema, 1981; Liu and Yang, 2009; Davis, Schul, Babakus and Pedrick, 1993), though several studies have shown that companies with low market share can be successful in certain environments (Hamermesh and Anderson, 1978; Szymanski, Bharadwaj and Varadarajan, 1993; Montgomery and Wernerfelt, 1991; Woo and Cooper, 1981 and 1982). Findings of past studies and their prescriptions for gaining market share, however, have some important limitations.

First, findings of most studies of market share growth are applicable only to companies in mature industries, because their data (i.e., PIMS, or Profit Impact of Marketing Strategies) include a disproportionally large number of companies operating in mature environments (Buzzell and Wiersema, 1981). Though effectiveness of strategies is known to differ across environments, very few studies have investigated strategies to increase market share in other environments, e.g., high-technology industries.

Second, though several strategies to build market share have been prescribed, most of them concern only with marketing. For example, high market share has been found to associate with high product quality, high marketing expenditures, and new product introduction (Buzzell and Wiersema, 1981). A competitive strategy includes not only marketing function but also other functions, e.g., production and finance. It also involves several other considerations, e.g., in which markets to compete, and with what objectives. A competitive strategy is an overall plan for a firm to effectively align itself with its environment. Very little research has incorporated a concept of strategy in investigating firms' behaviors of building market share.

Most past studies, moreover, have looked into the relationship between market share and return on investment (ROI) or profitability. A firm's strategies for gaining market share may have considerable impacts on other measures of its performance. It would be important for managers to know the effects of their share-building strategies on other performance yardsticks.

The purpose of present study, therefore, is to explore competitive strategies employed by companies in high-technology industries to increase market share. Specifically, the objective of study is to answer the following questions:

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(1) What types of strategies are followed by high-technology companies in order to increase market share? and;
(2) What are the relationships of share-building strategies with other performance measures, i.e., efficiency and profit performance?

I Competitive Strategy

The recent trend in strategic management research concerning competition in U.S. markets has been to identify types or typologies of strategies employed by firms within an industry. These studies are based on the recognition that strategies differ among firms within the same industry, and that subgroups of firms (or strategic groups) employ different mixes of methods to compete in the industry. Companies operating in the same or similar environment may compete by using different competitive methods due to dissimilar strategic orientation of their management and other internal distinctive competence. Several strategy types have been identified to help firms increase their performance, though very few of them addresses the relationship with market share. Examples of successful strategy types are Porter's (1980) three generic strategies, i.e., differentiation, low cost leadership and focus, and Miles and Snow's (1978) typology, e.g., defenders, prospectors, and analyzers (Colin, 2000; Jusoh and Parnell, 2008; Koo, Koh and Nam, 2004; Parnell, 2006; Yiannis and Spyros, 2001). These topologies are usually considered a useful tool for categorizing as well as understanding the types of strategies to be pursued by companies.

In order to find types of share-building strategy, key underlying dimensions of strategy need to be identified. Though there are many definitions and views of strategy (Schendel and Hofer, 1979), a strategy is often considered consisting of several strategic decision components, e.g., product-market scope, competitive advantage and growth direction (Ansoff, 1965; Schendel and Hofer, 1979). Strategic decisions regarding product-market scope are concerned with what markets a firm competes in, what kinds of products a company produces, and the rate at which a firm introduces changes in products and/or markets. The competitive advantage component of strategy relates to the means to compete in markets, e.g., low cost leadership and differentiation. Lastly, the growth direction component pertains to management objective relating to company growth, e.g., cautious vs. aggressive. These strategic decisions tend to largely shape a firm's strategy. Strategy types can therefore be considered consistent patterns or combinations of these key decisions.

Most existing strategic typologies are built around these decision components. For example, Miles and Snow's (1978) typology is primarily based on the product-market scope decisions. More specifically, companies following a "prospector" strategy aims at creating and marketing innovative products, with an aggressive growth objective. On the other hand, firms pursuing a "defender" strategy tend to carve a secure "niche" and to compete mainly with low cost positions, with cautious, incremental growth.

For another, well-known Porter's (1980) generic strategies concern mainly with competitive advantages. Companies, according to Porter, should follow one of the following two strategies, i.e., low cost leadership and differentiation. Low cost leadership emphasizes creating competitive advantages through generating and maintaining low cost positions relative to competitors, and minimizes expenditures in such functions as marketing, and research and development (R & D). A differentiation requires firms to create something unique, through creative marketing, innovative products, superior services, etc. This strategy tends not to stress lowering costs. Therefore, the present study focuses on the three strategic decisions, i.e., product-market scope, competitive advantage, and growth direction, in identifying strategies for gaining market share.

It would be helpful to briefly review past studies pertaining to "marketing strategies" for gaining market share. A firm's marketing strategies nevertheless constitute a part of its competitive strategy. Past studies have found that marketing activities instrumental in building market share are: (1) increase in new product activity; (2) increase in relative product quality, and; (3) increase in expenditures for sales force, advertising, and sales promotion (e.g., Buzzell and Wiersema, 1981; Buzzell *et al*., 1975). Each activity could be used independently of others, or employed in combination with other marketing activities. However, price reduction, a popular tactic to increase market share, has been identified to have very little impacts on market share change (Buzzel and Wiersema, 1981). It should be noted again that these studies have looked into share-building strategies in mature industries.

Ⅱ Research Design

Top executives of 628 companies in electronics industry were contacted by mail to participate in the study. Electronics industry was chosen because it includes several high-technology segments (e.g., semiconductor industry), and is also in a growth stage of industry life cycle with constant development and introduction of new products. A total of 182 executives agreed to participate and returned questionnaires (about 29 percent response rate). The average company in the sample had annual sales of $41–50 million and employed 300–400 people.

Of the 182 responding, 65 companies were in high-technology segments and expressed their strong emphasis on achieving rapid market share increase, as well as their high levels of success in increasing sales growth during the last several years. Therefore, strategies followed by these 65 companies were analyzed in this study.

Eighteen questions relating to the three strategic decisions were asked to respondents, in order to measure their strategies. Examples were product mix stability, marketing approach, product quality control and advertising. Further, they were asked to rate their performance pertaining to return on assets (an efficiency measure) and profit performance, based on a five point scale, with 5 being extremely successful and with 1 being not successful at all.

Ⅲ Survey Findings: Strategy Type and Performance

Using a statistical technique called "cluster analysis," 65 companies following share-building strategies were classified into five distinct groups (see Table 1). Sample firms were switched from one group to another until each group consisted of companies with similar strategy orientation and differed substantially from other groups. As Table 1 shows, five groups of firms differed significantly in their strategic decisions regarding scope, growth objective and competitive advantage. Mean scores of the competitive methods employed by each groups were compared with those of the methods reported by all sample firms.

Companies in group 1 appear to compete mainly with lower prices relative to competitors. They produce standardized products and serve lower price segments. These companies, however, do not strongly emphasize low cost positions, which are usually required for low cost leadership strategy proposed by Porter (1980). Firms in group 2 do not emphasize new product development, but emphasize lower prices relative to competitors. Therefore, they can be called "manufacturers of low priced product."

Companies in group 3 are characterized as having broad product ranges, and strong emphasis on new product development and services. Because of these characteristics, they can be called "broad-line differentiators." They are very similar to "prospectors" developed by Miles and Snow.

Group 4 aims at developing brand identification, and emphasizes new product development and advertising. Companies in this group tend to strongly deemphasize broad product ranges. They can thus be named "narrow product line differentiators." Group 5 companies tend to have broad product lines, change product-market mixes, stress quick response to service requests, and emphasize new product development. They can be called "broad-line innovators in premium markets."

Five groups of companies following share-build-

Table 1 Share-Building Strategy Types and Performance

	Clusters					
	1 (n = 16)	2 (n = 13)	3 (n = 10)	4 (n = 17)	5 (n = 9)	
Product market						
Broad product ranges			H[a]	--	H	**[b]
Create change in customer base						n.s.[c]
Unstable customer base	--	--	--	H	--	***
Products in high price segments						
Management Attitudes						
Aggressive attitude toward growth						n.s.
Growth in spurts						n.s
Competitive method						
Operating efficiency						n.s.
Economies of scale in production						n.s.
Competitive pricing	H	H			--	**
Product quality control						n.s.
Brand identification		--	H			*
Advertising				H	--	*
Innovation in marketing techniques						n.s.
Flexible manufacturing						n.s.
New product development		--	H	M	H	**
Short delivery time	H	--				*
Quick response to service requests		--	H		H	***
Manufacturing of specialty products						n.s.
Performance						
ROA	3.56	3.62	4.20	4.18	3.44	*
Profitability	3.31	3.85	4.30	4.25	3.56	**

Note: [a] H signifies high degree of emphasis placed on the competitive method by firms to compete in markets; M, moderately emphasized and; --, strongly deemphasized.

[b] Significance of difference among the five clusters: ***, $p<.01$; **, $p<.05$; *, $p<.1$. A probability of .1 signifies that there is a less than 10% chance that there is no difference between the means of the populations being compared.

[c] Not significant, n.s.

ing strategies differed significantly in return on total assets, an efficiency measure of performance. Groups 3 and 4 had higher ROA than others. In terms of profit performance, groups 3 and 4 also scored above average performance.

Ⅳ Implications for Managers

This study identified five distinct types of effective share-building strategies followed by companies in high-technology industries. These strategies differed substantially from those of past researches. The only finding that was similar to that of past studies was the importance of product innovation in increasing market share. This study, however, found that most high-technology companies following share-building strategies did not strongly emphasize low cost positions and economies of scale in manufacturing, which were contrary to past researches' findings. Also, this research revealed that competitive pricing was employed by two groups (1 and 2) as a means to increase market share, while Buzzel and Wiersema (1981) found such method not important in gaining market share in most mature industries. These findings indicated that share-building strategies employed in high-technology industries differ substantially from those in mature, stable environments.

Also, this study revealed that not only marketing activities but other strategic factors constitute strategies for market share gains. Breadth of product lines, scope of and change in markets, types of markets (low or high-priced segments) were found to be a major consideration to be taken into account in formulating and implementing share-building strategies.

Moreover, findings of the research pointed out varying degrees of effectiveness of strategy types. It was interesting to find that companies with product innovation capabilities (groups 3 and 4) generally outperformed others. This showed that most successful share-building strategies in high-technology industries are based on development of new products and markets. It was also interesting to find that three groups (1, 2 and 5) of firms which had some conflicting or ineffective organizational and strategy arrangements yielded somewhat lower performance. Companies in groups 1 and 2 attempted to compete mainly with lower prices, but without emphasizing low cost positions. Note that they did not strongly deemphasize new product development. Firms in group 5 appeared to pursue two seemingly conflicting strategies, i.e., very stable customer base and new product development.

A possible explanation for their pursuit of conflicting or ineffective strategies is that these companies face changes in technologies and customers' needs, and thus can not achieve strong low cost positions nor ignore the need for new product development. Low cost leadership strategy tends to be most effective in stable environments. When new technologies are developed to create new markets in high-technology industries, older markets tend to decline and to be replaced by the new ones. In such an environment, companies following low cost leadership strategy with the objective of market share increase need to search for new markets by at least sustaining product innovation capabilities. These constraints may have led to somewhat lower ROE and overall performance for these companies.

Five different types of effective share-building strategies are found in this study. These strategies, however, can be largely classified into the two broad categories, one based on strong product innovation capabilities and the other based on low prices. Companies in groups 3 and 4 aim at increasing market share mainly through new product introduction and new market development, while those in groups 1 and 2 attempt to do so primarily through offering lower priced products.

Managers in innovative companies should follow one of two share-building strategies. One is to develop a reputation for service, and the other is to aim at serving changing market. The basic difference between the two appears to stem from what markets companies target: The latter specifically targets customers who are constantly changing in their product needs, while the former aims at serving customers who demand quick response to service requests.

Managers in companies emphasizing lower prices have primarily two alternative strategies for gaining market share. Again, these strategies differ mainly in what markets companies attempt to serve. One is to target price-conscious customers with special needs for short delivery time. The other is to serve wide ranges of price-conscious customers. Still other is to market established products to price-conscious customers. These findings point out the importance of giving primary emphasis to one or more specific segments in the markets, in order to pursue share-building strategies. The decision of what markets to focus appears to largely depend on company's distinctive competence, i.e., product innovation capabilities.

This study investigated competitive strategies employed by high-technology companies to increase market share, and identified five types of effective share-building strategies. These strategies were found to differ considerably from those used by companies in mature industries. The findings of this study can be used by high-technology firms to formulate and implement effective share-building strategies.

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