Cannibalisation

If a firm introduces a new product or service into a market where there is little scope for further growth, that product or service will either eat into the share of the market's existing products, or swiftly disappear from sight. If some of the existing products are manufactured by the firm that is introducing the new product, the newcomers will cannibalise the old ones; that is, they will eat into the market share of their own kind. For example, it has been estimated that two-thirds of the sales of Gillette's Sensor razor came from consumers who would otherwise have been customers for the company's other razors. Each new blade is cut-throat competition for its predecessors.

There are sound reasons for firms to do such a seemingly stupid thing. In the first place, they may need to keep ahead of the competition. In the chocolate-bar market in Britain, for instance, the decline in Kit Kat's share was arrested by the launch of a new, more chunky bar, which undoubtedly cannibalised the market for the original. Its appeal was to all those people who buy chocolate bars, which includes those who bought the old Kit Kat.

Firms may also choose to cannibalise their own products by producing marginally improved products. The idea is to persuade existing customers to purchase an upgraded version. This is common in the PC market, for example, where Intel's newest, most powerful processor cannibalises the last generation of Intel processors, but in the interests of arresting decline in the total market.

Economists sometimes distinguish between planned and unplanned cannibalisation. Planned cannibalisation is an anticipated loss in sales of an existing product as a result of the introduction of a new product in the same line. In the unplanned version, the loss of sales is unexpected.

Historically, firms have found it hard to cannibalise their own products. They have tried to hang on to declining market shares for too long before deciding to introduce new products that compete with their own. Kodak, for example, refused for years to introduce the 35mm camera for fear of cannibalising its older products. Likewise, years later, it was late to embrace the market for digital imagery. Bausch & Lomb invented the soft contact lens but failed to launch it because the firm did not want to lose the lucrative business of selling the drops that hard lenses require. As a result, Johnson & Johnson swept into soft lenses, and the market for hard lenses (and their drops) disappeared.

The internet presented many firms with difficult decisions about cannibalisation. Travel agents, for instance, had to decide whether to offer online services at a fraction of the cost of their traditional branch-based business in order to compete with airlines and other firms that were selling to customers via direct online links. Publishers had to decide how much material (and at what price) to make available electronically.

Deregulation also presents companies with difficult dilemmas about cannibalising products and services that have thrived for years in protected markets. In the airline business, for example, traditional national carriers faced with feisty, low-cost new entrants had to decide whether to join them (and thus compete with themselves) or to remain aloof. British Airways introduced its own low-cost airline called Go (which it sold in 2002). Go competed not only with the new entrants but also (in a carefully controlled way) with BA itself.

Further reading

Kerin, R. and Peterson, R., "Strategic Marketing Problems: Cases & Comments", 1st edn, Allyn and Bacon, 1978; 10th edn, Pearson Education International, 2004

McGrath, M., “Product Strategy for High-Technology Companies”, 1st edn, Irwin Professional Publishing, 1995, 2nd edn, McGraw-Hill, 2000

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