Analysis of the effects of product cannibalism

Business

PRICING STRATEGY - CANNIBALISM AND NEW PRODUCT DEVELOPMENT – R. A. KERIN M. G. HARVEY J. T. ROTHE 1. My choice I have chosen to work on this topic for these reasons. For many years now, and mostly because of the economic crisis, a lot of« premium » and mid-range brands have to compete against low-cost ones. In order to do this, some of these companies decided to launch low-cost brands to bring back lost customers.

But I have already learned that this strategy can sometimes become a real threat for their premium brands: in fact, companies who do this can think that they bring new customers but unfortunately these customers are coming from their premium brand. Some real life examples are coming to me such as Coca-Cola Company who launched Coca-Cola light and Coca-Cola zero which was successful. How to avoid or reduce the brand cannibalization? What kind of strategy to develop? I hope that this article, even if it's a very old one, can answer these questions. . The summary The article starts be giving a definition of the cannibalization effect: we consider 2 different products (A and B) belonging to the same company – cannibalization means that (all other things equal), decreasing the price of product A will bring the sales decreasing of product B. This undesirable effect is occurring when the company, instead of launching a new product, prefer to reformulate one which already exists in an already created market. Authors are putting lights on two main consequences of cannibalistic strategy.

The first one is positive, it allows to the company, through the new product, to open a new market, and thus gain market shares. The second seems to be negative, because customers of the first company's product can switch to the second, and it will not bring any additional revenue to the company. But, as authors underline, sometimes it's better for the company to see customers moving from the first product to the second one inside the same portfolio than reaching the competitor's product.

So, cannibalism strategy can be a good way for the company to kill competitors, but the risk is huge if the new product creates an artificial segmentation which impliesartificial needs. The distortion effect of cannibalism is the second main part of the article. Basically, it means that in order to appreciate the profitability of the new product, you must take in account cannibalization of the first one. Authors are talking about « Pyrrhic Victory » when one's overestimate the growth of the sales volume and market share due to the new product.

Authors provide a solution to avoid this bas effect of cannibalism: the market test. For them it's the best method to know what need(s) the new product will fulfill when it will be launched. This method can help managers to identify (the most early as possible) what amount of the new product should be produced in order to reduce the cannibalization. The question of the « acceptable » level of cannibalization is evoked: the two main drivers to compute it are according to the authors the cost structure and market maturity. 3. My opinion

One of the main lessons I learned reading this article is that cannibalism can really be a positive thing for companies. Even if customers of the new product are indeed customers who switched from the previous one, they still not competitor's customers. Far to be a threat, the cannibalism strategy can really be useful and great for companies, especially, as I said in my first part, in time of crisis. Then I think, the article could provide more examples of « positive » or « negative » cannibalization. The example of Coca-Cola provided at the beginning of this memo is revelatory of the« positive » cannibalization.

In fact, a lot of different soda beverages belong to the Coca-Cola company (such as for instance Fanta, Minute maid or Coca-Cola). In 1983, Coca-Cola company launched Coca-Cola light, which tastes different from the original Coca-Cola but sugar free ; and then, at the beginning of 2000', Coca zero was launched which was supposed to have the same taste as Coca-Cola original, and still sugar free. Even if Coca- Cola light lost many customers who switched to Coca zero, they still « inside » the same company and not moved to competition.

This kind of strategy was learned in our Brand management course that sometimes it consists in creating a similar product can extend the market share of both products. Named the Flanker strategy, the two products are belong not only to the same company but also to the same product category. This strategy has many advantages: it's often almost free to market, as it's very close to the first product and using the same brand, and it was noticed that it's also a good way to promote both products and brands.