Exploit Customer Turnover and Boost Your Market Share

Written by Karel Cool & Petros Paranikas

Customer turnover – the extent to which new customers enter a market and existing customers leave the market – can give thrust to market entrants and destabilize seemingly unbeatable competitors. Nintendo's position in the video-game industry seemed unassailable in the mid-1990s. But the fast flow-through of gamers gave Sony an opportunity to successfully attract a dominant share of the market with their new game console. By 1999, Sony's PlayStation 1 had transformed the industry and dethroned Nintendo. The tables turned again when Nintendo's Wii overtook Sony's franchise. The Wii's combination of innovative play and low pricing appealed to the changing customer base – and put Nintendo in the lead.

Customer turnover can also make mature markets dynamic. Consider the US market for smoking-cessation aids. In the past 10 years, this market has hardly grown. Yet, during that period, the market shares of the leading brands, Nicorette and Nicoderm, were cut almost in half by the brands of Walgreens, CVS, WalMart and others. Compare this to the market for cigarettes. Although growth was equally flat during the same time period, the market share of leaders Marlboro and Camel hardly changed and no new brands gained a foothold. Why the difference? Customers of smoking-cessation aids turn over quickly — either they quit smoking or they take up the habit again. In the cigarette market, by contrast, customers stay put, and this low turnover protects incumbents.

Customer turnover helps entrants seize market opportunities and shakes up the established competitive order; it is the rip current of markets.

The drivers of Customer Turnover

Three factors drive customer turnover: age or stage specificity, product durability and infrequency of use. Age specificity of a product refers to how narrow the age range of the intended target market is. Products such as diapers, young-adult books, and retirement communities naturally have a higher flow-through of customers than markets for toothpaste, newspapers, and cigarettes. Markets for products that are appropriate only to a specific development stage (e.g. smoking cessation, language proficiency, bridal magazines, driving instruction, moving services) likewise have a high turnover.

Markets for durable products such as cars or refrigerators, which customers tend to buy and hold on to also have very often a fast changing customer base.

Finally, anything that is infrequently used, such as funeral services or pregnancy tests, will have a constantly changing pool of customers. The lower the frequency with which a potential consumer needs a given product, the fewer visits he will make to the market. Examples include funeral services, landscaping projects, pregnancy tests and real estate agencies.

Winning Strategies for New Entrants

High turnover markets offer exceptional opportunities to new entrants because few customers have established loyalties. But winning these customers can be challenging as they may be risk-averse or reluctant to try something new. New entrants may break through with the following strategies:

- ***Cut customers' trial costs.*** The goal is to overcome customers' inertia or reluctance to try something new. When Sony entered the video console market, the Nintendo and Sega systems were well entrenched. To gain share, Sony equipped its Playstations with a CD drive, essentially creating the cheapest CD player in the market. Customers got two uses out of one system, which increased its perceived value and offset their concerns that the new system wouldn't be a hit. Sony used the same strategy when it launched the PS2 (with a DVD player) and the PS3 (with a Blu-Ray player).
- ***Use bundles to drive adoption.*** Bundles give customers more value than existing products offer. To compete in the browser market that was dominated by Netscape, Microsoft

seamlessly bundled Explorer with its highly valued Windows operating system. Apple took a different but equally successful approach, shrewdly extending its powerful "i" brand — from iPod to iPhone to iPad — to enter markets dominated by Sony, Nokia and Amazon.

- ***Form alliances with reputable partners from low-turnover markets.*** Unknown new entrants can increase the comfort level of potential customers by forming alliances with established, reputable partners that can provide referrals. For instance, real estate agents gain credibility by associating themselves with banks and insurance companies, stable players in low-turnover industries. And textbook publishers build long-term relationships with professors to get their books on the reading list in the high-turnover college market.

To know more about the strategic relevance of customer turnover, see Karel Cool and Petros Paranikas, "When Every Customer is a New Customer", Harvard Business Review, May 2011, or contact the authors. Karel Cool is the British Petroleum Chaired Professor of European Competitiveness and Professor of Strategy at Insead. He is also the founder and director of the long running Competitive Strategy program (http://executive-education.insead.edu/competitive_strategy). Petros Paranikas (Insead MBA, 2000) is Partner and Managing Director of the Boston Consulting Group in Chicago.

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