Dealing with Market Trends: Why Firms Often Fail to Keep up with Market Innovation

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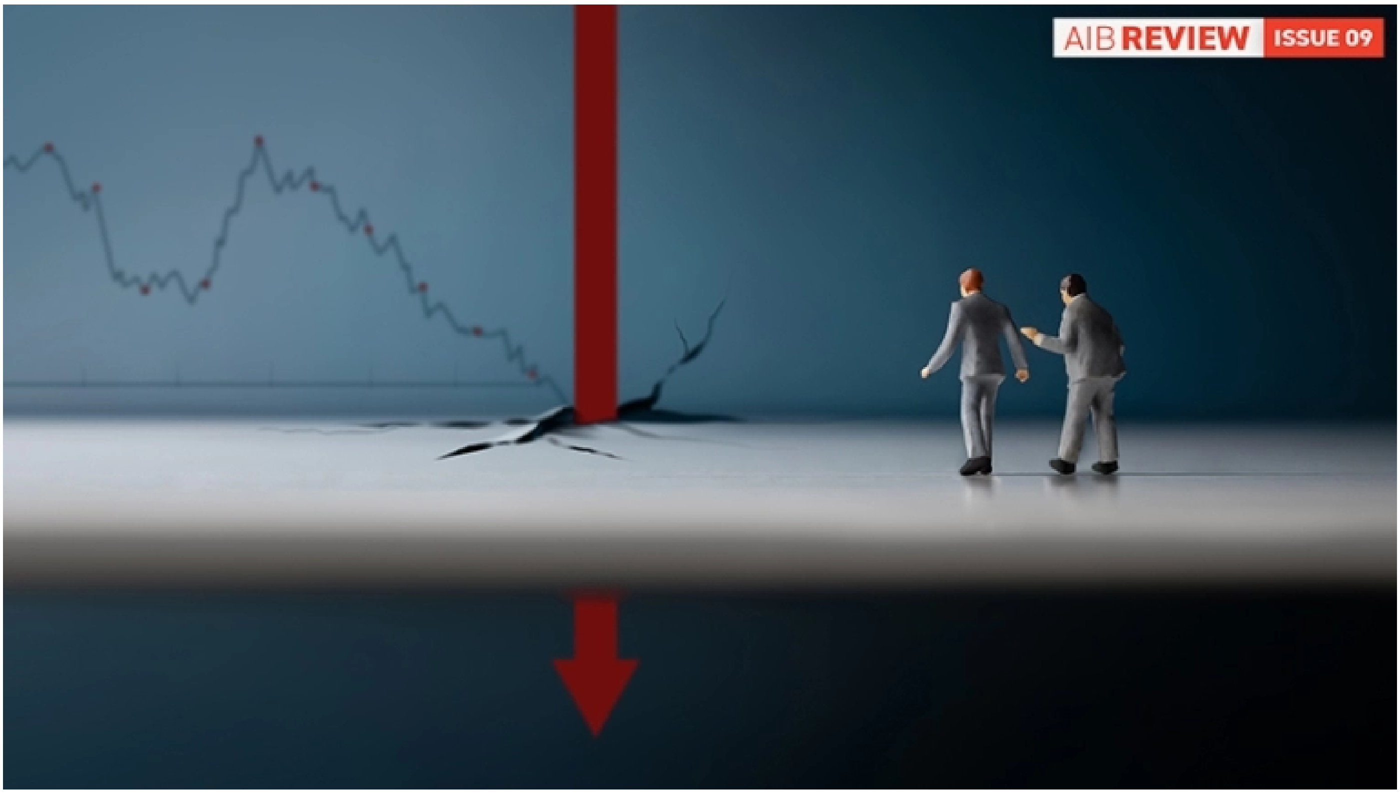

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Innovation within markets is a necessity. Beyond helping firms maintain competitiveness, it leads to better value for consumers, improved resource use efficiency, and even diminished environmental impact of business and consumption activities. While many companies will consider innovation at some stage, why is it that so many of them get blindsided by their competitors innovating?

Modern markets are in a constant stage of evolution. They change and adapt based on changing preferences, new products, or even environmental impacts such as the COVID-19 pandemic. Despite the constant change that occurs within markets, many businesses are unable to see change until it is too late.

Market changes can be hard to perceive without knowing what to look for. Some companies hyper focus on the day-to-day activities, while others become committed to a long-term strategy that can become obsolete very quickly. Much like Blockbuster failed to see the value of Netflix, companies may fail to revise their strategy in accordance with emerging market trends.

The inability to spot new market trends and evaluate them accordingly typically results in companies being taken by surprise. Market trends are easy to spot in hindsight, but people rarely know what to look for as the trends are emerging. Innovations may at first seem like passing fads, or insignificant data outliers. Most think that market change is significant and that responses are required when some big shift occurs. At this point however, companies may find that it is far too late.

Market change tends to be incremental, which is why it is often unnoticed. Huge innovations are few and far between, and even when they occur, most businesses need time to evaluate whether they apply to their industry. Blockchain is a good example of an innovation that many are still in the process of evaluating and experimenting with its application. Whether it will be used in the future, or how, is yet to be determined. GameStop however is at the forefront of this innovation, already releasing their own NFT marketplace, being among the first to utilize the tech.

While big changes are rare, small incremental changes however occur quite often. Given enough time, small changes to things like consumer preferences will have significant implications for companies, their products, and ultimately their market shares. It becomes a snowball effect as small changes become cumulative, building over time, moving whole industries into a new direction. For example, while many cosmetics companies focussed on high-tech products in the 90s, Body Shop shifted the focus to natural ingredients and healthy lifestyle. In time, this caused consumers to fundamentally change their preferences, establishing The Body Shop within the market, and forcing others to adjust.

To better understand market innovation and be prepared for changes within markets, it is important to understand the process through which innovations go through. All markets and innovations go through three phases: Innovation, Diffusion, and Stabilization.

Stage 1 – Innovation phase

Before any significant change happens within markets, companies work behind closed doors on their big new idea. This can often involve hiring experts, acquiring technology, or even changing company culture. The environment within companies needs to foster creativity and innovative thinking, otherwise broad scale innovations will fail well before they are brought to the market. A company going on a hiring spree would be a good signal to pay attention. What is it they are working on? What positions are they recruiting for?

Innovations always start out behind the scenes. Companies experiment with new products or create new business models. Some may even trial them within markets. Regardless of the process your competitors go through, keeping an eye on their activities may yield you valuable insights. This may help you distinguish between a real innovation or a passing fad. In addition, many companies succeed building upon ideas of others by improving them. Therefore, it is important not to dismiss innovative ideas, but to explore how they may serve consumers better, or perhaps how your company could do it better.

Stage 2 – Diffusion phase

When innovations are ready, they are released to the market. This is where innovations are distinguished from fads. Innovation brings with it incremental change. As companies begin attempting to convince their customers to abandon the old and try the new, customers may start re-learning what 'normal' means within the market.

The bright idea behind Uber was dissatisfaction with existing taxi services. Upon release, customers were amazed by the service, learning that there are better options and that they do not have to settle for subpar services. Over time this forced companies to adjust and improve their services.

Consumers however, are not the only ones who may need to change. Suppliers and intermediaries may also be required to adjust to bring the innovation to the market. Observing changes in suppliers or intermediaries may give you an indication to where the market is moving. Bringing businesses and consumers on board to support the innovation may give it the critical mass it needs to become the new market standard.

When innovations are commercialised, they effectively compete against an established standard. This may be in the form of product design, ingredients, or even simple things such as how a product or service is used. When typical market practices that were considered 'normal' start to change, the innovative product is moving towards becoming the new standard. This is a critical point in time as failure to notice this may result in your company being left behind.

Alternatively, some innovations give rise to parallel markets. This is less of a threat, and more of an opportunity. While parallel markets may seem like they are reducing your customer numbers, they may in fact drastically expand your customer base. For example, while the Taxi industry considered ride-shares like Uber and Lyft a threat, they significantly expanded the transport market. And while initially taxis fought against it, by making the service more accessible, ride-share companies more than doubled the market size of taxis, some of which spilled over into the taxi market. Hence, while they seemed like a threat, there were more customers to go around for everyone.

Stage 3 – Stabilization phase

Stabilization phase begins when innovations become widespread. They may not have completely taken over the market because many consumers and companies are slow to react, however in this stage, the innovation becomes the 'new normal'. Over time, the old products or ways of doing things fade. This is the final stage where adjusting to the innovation is still possible before companies or business models become obsolete.

Within this stage, long term partnerships are sought with suppliers and intermediaries to ensure smooth operations. Consumers also see this as the new normal. The Taxi industry became competitive with ride-shares only when they released their own apps and improved their services to compete with the new standard.

Consumers, having learned the new standard, are unwilling to go back, and may even become loyal depending on the value offered by one brand/company. Apple is the prime example of a company that innovated, delivered amazing customer value, and as a result, secured a global fanbase.

Real market stability, however, comes when innovations become institutionalized. Some companies may pursue regulatory changes to gain/maintain advantage within markets. Successful regulatory changes provide stability as new entrants must compete by adhering to the same/new rules, and providing some temporary stability to the market.

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As one company succeeds with innovation, others will attempt it too. Innovation from a variety of sources such as competitors, or new entrants is common. Multiple companies may seek to establish a new standard within the market at the same time, such as was the case with VHS and Betamax. Or firms may attempt a collaborative approach such as Apple, taking new ideas and pushing them further. Regardless of the dynamic, keeping a close eye on the market is a necessity as even small changes can have significant impacts over time.

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