Chapter 6

Competitive Strategy and the Industry Environment

STRATEGIC MANAGEMENT

Lecture 6

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Opening Case

❖ Competition in Microchips Speeds Up

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The Industry Environment

There is the need to continually formulate and implement business-level strategies to sustain competitive advantage over time in different industry environments.

- ❖ **Different industry environments present different opportunities and threats.**
- ❖ **A company's business model and strategies have to change to meet the environment.**
- ❖ **Companies must face the challenges of developing and maintaining a competitive strategy in:**
  - Fragmented Industries
  - Embryonic Industries
  - Growth Industries
  - Mature Industries
  - Declining Industries

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Fragmented Industries

A fragmented industry is one composed of a large number of small and medium-sized companies.

- ❖ **Reasons for fragmented industries**
  - **Low barriers to entry due to lack of economies of scale**
  - **Low entry barriers permit constant entry by new companies**
  - **Specialized customer needs require small job lots of products** - no room for a mass-production
  - **Diseconomies of scale**

- ❖ **Strategies**
  - **Chaining –** networks of linked outlets to achieve cost leadership
  - **Franchising –** for rapid growth with proven business concepts, reputation, management skills and economies of scale
  - **Horizontal Merger –** acquisition to obtain economies and growth
  - **IT and Internet –** to develop new business models

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The Industry Environment

- ❖ **Positioning a company to sustain competitive advantage over time in different kinds of industry environments**
- ❖ **Different industry environments present different opportunities and threats**
- ❖ **A company's business model has to change to meet the environment**

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Strategy in Action

❖ Clear Channel Creates a National Chain of Local Radio Stations

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Embryonic and Growth Industries

An embryonic industry is one that is just beginning to develop when technological innovation creates new market or product opportunities.

A growth industry is one in which first-time demand is expanding rapidly as many new customers enter the market.

Strategy is determined by market demand

- Innovators and early adopters have different needs from the early and late majority
- Company must be prepared to cross the chasm between the early adopters and the later majority

Companies must understand the factors that affect a market's growth rate – in order to tailor the business model to the changing industry environment.

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Market Characteristics: Embryonic and Growth Industries

- **Reasons for slow growth in market demand**
  - Limited performance and poor quality of the first products
  - Customer unfamiliarity with what the new product can do for them
  - Poorly developed distribution channels
  - Lack of complementary products
  - High production costs
- **Mass markets typically start to develop when:**
  - Technological progress makes a product easier to use and increases its value to the average customer.
  - Key complementary products are developed that do the same.
  - Companies find ways to reduce production costs allowing them to lower prices.

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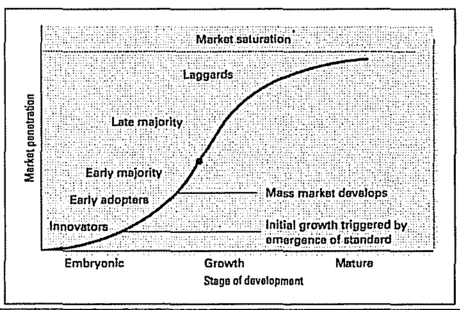
Market Development and Customer Groups



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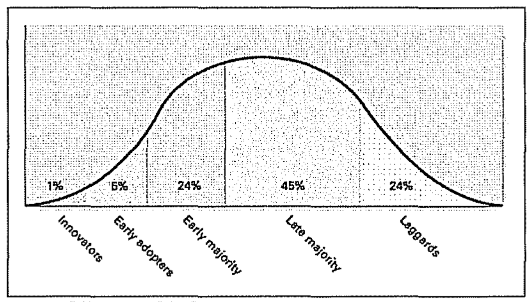
Market Share of Different Customer Groups



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Strategic Implications: Crossing the Chasm

- **Crossing the chasm between early adopters and the early majority**
  - Innovators and early adopters are technologically sophisticated and will tolerate engineering imperfections (the early majority are not)
  - Innovators and early adopters are typically reached through specialized distribution channels (the early majority are not)
  - Innovators and early adopters are relatively few in number and not particularly price sensitive (the early majority are not)

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Strategy in Action

- AOL, Prodigy, and the Chasm

prodigy™

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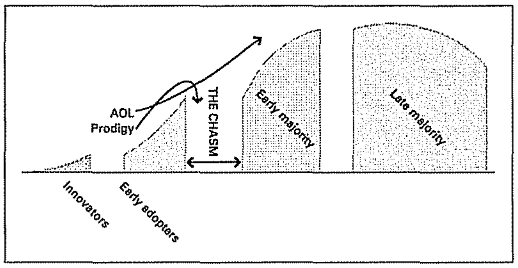
The Chasm: AOL and Prodigy



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Strategy in Mature Industries

Strategies for deterring entry of rivals

Strategies for deterring entry of rivals
- Product proliferation
- Pricing games
- Maintaining excess capacity

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Film

❖McDonald's

Click for Video- McDonald's

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Four Nonprice Competitive Strategies

Marketing Segments	Products: Existing	Products: New
Existing	Market penetration	Product development
New	Market development	Product proliferation

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Strategies to Manage Rivalry in Mature Industries (cont'd)

❖**Market penetration**
- **Expanding market share in existing markets**

❖**Product development**
- **Creating new or improved products to replace existing ones**

❖**Market development**
- **Finding new market segments for a company's products**

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Strategy in Action

❖Fast Food is a Ruthless Business

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Strategies to Manage Rivalry in Mature Industries

- ❖Price signaling
  - Tit-for-tat strategy
- ❖Price leadership
  - Formal price leadership is illegal
- ❖Nonprice competition
  - Product differentiation

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Strategy in Action

- ❖Nonprice Competitive Strategies at Nike

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Strategy in Declining Industries

- ❖Leadership
  - A company seeks to become the dominant player
- ❖Niche
  - Focusing on pockets of demand that are declining more slowly than the industry as a whole
- ❖Harvest
  - Optimizing cash flow
- ❖Divestment
  - Selling off the business

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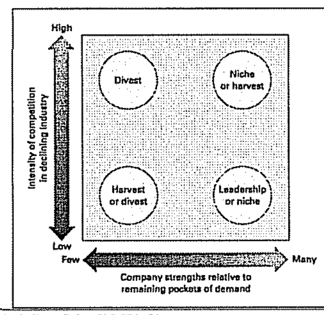
Strategy Selection in a Declining Industry



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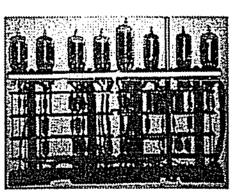
Strategy in Action

- ❖How to Make Money in the Vacuum Tube Business



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Closing Case

- ❖Warfare in Toyland

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End of Lecture 6

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ENING CASE

Competition in the Microchip Business Speeds Up

Intel has always been the leader in the market for central processing units (CPUs) microchips; its Pentium, Atom, and new Nehalem chips provide the processing power for all kinds of PCs, including desktops, laptops, and smartbooks.

Its main competitor is AMD. The market for graphic processing units (GPUs) microchips that provide state-of-the-art animation, high-definition video, and the processing power needed to run high-powered computer games such as Crysis, World of Warcraft, and Grand Theft Auto and that allow for sophisticated 3D rendering of shapes and images has been dominated by Nvidia. Nvidia's GPU chips are a favorite among sophisticated gamers, animators, and visual designers. Nvidia's main competitor is ATI, which was bought by AMD (Intel's major CPU competitor) in 2006.

AMD's goal in buying ATI was to combine the different processing powers of the CPU and GPU chips to give PC users the best possible computer processing power and speed while providing stunning graphic capabilities. By combining both kinds of chips, AMD's goal was to obtain a competitive advantage over Intel. Intel's CPUs have only very basic graphic processing power—enough for ordinary PC tasks but not sufficient for powerful gaming applications, video processing, or sophisticated graphic interfaces such as those inside Apple's PCs. GPUs are the heart of all gaming consoles, and Nvidia provided the chip used in the first Xbox. Currently AMD's ATI division supplies the GPU that powers the Nintendo Wii, and Nvidia's GPU is inside the PlayStation3. Nvidia scored a major coup in 2009 when Apple announced that all its new PCs would contain Nvidia's advanced GPUs because of their state-of-the-art performance. Nevertheless, in 2009, ATI also introduced powerful new GPUs that compete with Nvidia's. Today, both Nvidia and ATI compete to provide the GPUs in the PCs offered by makers such as Dell, HP, and Lenovo; in addition, Intel and AMD compete to provide the CPU in these PCs.

The complex, competitive situation between these three companies has led to major changes in their business models, competitive positioning, and strategies in the maturing PC market. For example, fierce competition between AMD and Intel came to a head in 2005 when AMD introduced a new generation 64-bit CPU that performed better than Intel's, and its stock price shot up as Intel struggled to catch up. But Intel, a broad differentiator with massive resources invested heavily, innovated an even more powerful CPU, and by 2007, it had matched and outperformed AMD's. At the same time, Intel had the resources to make its next-generation CPUs smaller, something which is increasingly important today because of the need to cool the smaller-sized laptops. AMD's stock price plunged as Intel's soared because it had lost its lead in CPUs and because in 2007 it still had no viable GPU to compete with Nvidia's.

Then, as noted, in 2008 Nvidia received a major shock when AMD's ATI introduced its next-generation GPU chip that outperformed Nvidia's and offered these powerful GPUs at lower prices to regain market share. Then, Nvidia's stock price plunged; it was forced to reduce the price of its GPUs to compete. A price war began, and the profits of both companies fell. At the same time, ATI was still battling with Intel in the CPU market, in which Intel's new "dual core" processors had become the market leader. AMD introduced its next-generation chips that matched and even outperformed Intel's; the result again was a price war in which companies reduced the price of their CPUs to fight for market share. The result was that each of the three chipmakers' profits were falling because they locked in an intense competitive battle; at the same time, PC customers obtained more powerful PCs at lower and lower prices.

Then, in 2008, to worsen the competitive situation, Intel announced that it was developing its own state-of-the-art GPU code named Larrabee to compete directly against Nvidia and AMD. Intel had recognized how rapidly the GPU market was growing because of the increasing popularity of online video, animations, HD movies, and, of course, high-powered games played on PCs. With Intel, the giant in CPUs now competing in the GPU segment of the market, the stock price of Nvidia and AMD crumbled. Prices of all kinds of chips continued to plunge just as all three companies have had to spend billions on expensive new R&D to innovate improved chips, even as their profits plunge. The bottom line is that the intense competition in the computer chip market is leading to falling profitability of the three major companies, even though they are providing customers with much more value for their money. Clearly, the most innovative companies need to manage industry competition to ensure that they can provide their customers with superior products and, at the same time, obtain above-average profits so they can fund the innovation necessary to improve products and profitability over time.

Strategy in Action 6.1

Clear Channel Creates a National Chain of Local Radio Stations

In 2004, Clear Channel Communications, Inc., based in San Antonio, Texas, operated over 1,200 U.S. radio stations, far more than its largest competitors: Viacom with 220 and Citadel with 205. The company started out with only one station in San Antonio in 1995, following a pattern that used to be typical of the radio broadcasting industry. Historically, the industry was fragmented because a federal law prevented any company from owning more than 40 stations nationwide; as a result, a large proportion of the local radio stations were independently owned and operated.

Clear Channel took advantage of the repeal of this law in 1996 to start to buy up radio stations and, most importantly, to develop a business model (which today is one of *broad differentiation*) that would allow it to obtain the gains from consolidating this fragmented industry. Its strategic managers recognized from the beginning that the major way to increase the profitability of city and small town radio stations was to obtain economies of scale from operating and marketing on a national level. The issue was to find ways to raise the quality of its programming to increase its value to listeners, increase the number of listeners, and thus increase advertising revenues (because advertising rates are based on the number of listeners). At the same time, it needed to find ways to reduce each station's high operating costs, that is, lower its cost structure. How to do both simultaneously was the challenge.

On the value side of the equation, an important issue was how to achieve economies of scale from having a national reach while maintaining local ties to the community. Many listeners like to feel they are listening to a local station that understands who they are and what their needs are. Yet if all programming and service are handled on a local level, how can economies of scale from a national base be achieved? Most cost savings come from standardizing service across stations, from broadcasting uniform content. In addition, local listeners often become used to the glitzy, slick productions put on by national cable television broadcasting companies such as MTV and the main TV networks. Because they are national, these companies can afford to pay large sums to stars and celebrities and invest heavily in developing quality products. Such large expenditures are beyond most radio stations' budgets and simply increase the cost of goods sold too much. Moreover, advertising rates had to be kept at a level that both large national companies and small local ones would find acceptable; they could not simply be raised to cover higher costs.

Clear Channel's managers began to experiment with information technology and the Internet and took advantage of emerging digital technology that allowed for the easy and rapid manipulation and transfer of large volumes of data. By the late 1990s, music and programming could easily be recorded, stored in digital format, and edited. Its managers hit on a strategy called "voice tracking." To obtain economies of scale, Clear Channel employed popular regional or national DJs to record its daily programs, and these same DJs customized their productions to suit the needs of local markets. For example, one technology allows DJs to isolate and listen to the end of one track and the beginning of the next; then they can insert whatever talk, news, or information is appropriate between tracks as and when they like. The local stations supply this local information; after they have customized their program, the DJs send it over the Internet, where the local operators handle it. This practice has enormous advantages. On the cost side, the programming costs of a limited number of popular DJs are much lower than the cost of employing an army of local DJs. On the differentiation side, the quality of programming is much higher because Clear Channel can invest more in its programming and because the appeal of some DJs is much higher than others. Over time, higher-quality programming increases the number of listeners, and this attracts more national advertisers, whose digital advertisements can be easily inserted in the programming by local operators.

In addition, Clear Channel is developing its own proprietary brand name, KISS, across its radio stations so that when people travel, they will be attracted to its local stations wherever they are. It also hopes this move will stimulate word-of-mouth advertising. As its brand becomes national, this widened scope will attract larger advertisers and boost its sales revenues. To speed this process, Clear Channel is also linking its different businesses—for example, it is the largest billboard and concert operator in the United States—to its KISS label. It hopes that the resulting increased customer demand will drive up advertising revenues, which will allow it to start or buy more radio stations and expand its reach, thereby lowering its cost structure and increasing its future profitability.[a]

Strategy in Action 6.2

How Prodigy Fell into the Chasm

Before America Online (AOL) became a household name, Prodigy Communications was a market leader. Founded in 1984, Prodigy was a joint venture between Sears, IBM, and CBS. CBS soon dropped out, but IBM and Sears stuck with it, investing $500 million in developing the network and finally launching it in 1990. Prodigy's business model was differentiation, and the goal was to build the largest proprietary online shopping network: the system would give its customers the ability to buy anything, even plane tickets, online. IBM knew about computers, and Sears knew about retail. It seemed like the perfect marriage.

Launched in the fall of 1990, the service quickly accumulated half a million users. There was little sense of competition at the time. The largest competitor, CompuServe, was conservatively managed, and it pursued a focused business model based on servicing the needs of technical users and financial services (CompuServe was owned by H&R Block, America's largest tax return service). There was another small competitor, AOL, but in the words of one Prodigy executive, "It was just a little thing off to the side." Ten years later, the little thing had become the largest online service in the world, with 33 million members, and Prodigy had exited the online business altogether after IBM and Sears had invested, and lost, some $1.2 billion on the venture.

Why did Prodigy fail? The company appeared to be focusing on the mass market. Its target customers were not computer-oriented early adopters but typical middle-class Americans. And its business model to sell products online seemed correct; surely this ultimately had to become a major application of the Internet. The problem was that Prodigy's managers did not choose the right set of strategies to formulate the business model; in particular, they did not understand the full range of needs customers were trying to satisfy by using the Internet.

One of the surprise early drivers of customer demand for online services, and a major factor in creating the mass market, was e-mail. AOL's strategy was to offer its members unlimited e-mail, but Prodigy charged members a fee for sending more than thirty e-mails per month—a big difference in business models. Another important application of online service was chatrooms, a service that customers were increasingly embracing. AOL saw chatrooms as one of the unique possibilities of online service for satisfying customer needs, and its strategy was to quickly implement the software that would soon make chatrooms one of its most popular features.

The lawyers at Prodigy's corporate headquarters, however, feared that Prodigy might be held legally liable for comments made in chatrooms or events that arose from them, and they discouraged Prodigy from offering this service. This censorship, lack of chatrooms, and charges for e-mail rankled members, who soon started to switch in droves to AOL.

The nature of the software interface used to allow customers to connect to an online service also became a critical competitive issue as the market developed. When it was introduced, Prodigy's primitive graphical user interface was acceptable by the PC standards of the time, which were based on Microsoft's MS-DOS operating system. When Microsoft introduced its much more user-friendly Windows 3.0 systems in 1990, AOL moved quickly to redesign its software interface to be compatible with Windows, and this made AOL much easier to use. Prodigy, however, was part owned by IBM, which at that time was trying to promote its own new PC operating system, the ill-fated OS/2. So Prodigy dragged its feet. It waited to implement a Windows version of its own interface until December 1993, by which time it had lost the majority of Windows users to AOL.

By 1996, the battle was effectively over: AOL was growing by leaps and bounds and Prodigy was losing customers at a rapid pace because its strategies had pushed out the value frontier. AOL, by correctly sensing the way customer needs were changing and then providing a differentiated product that met those needs, crossed the chasm with ease.[b]

Strategy in Action 6.4

Fast Food Is a Ruthless Business

In the mature and saturated fast food industry, competition for customers by hamburger chains has been intense. McDonald's, the industry leader, has been under intense pressure to maintain its profit margins, because as the price of fast food has fallen, price wars have periodically broken out. Taco Bell started the first price war in the industry when it introduced its $.99 taco. Taken aback, McDonald's and other burger chains, such as Burger King and Wendy's, had to find ways to lower their costs and prices. As a result of price competition, all the burger chains were forced to learn how to lower their cost structures to make a cheaper hamburger. Today, constant innovation in food preparation is the name of the game, and companies have been able to lower their prices.

With most fast food restaurants now offering comparable prices, the focus of competition has shifted to other aspects of their products. First, the major chains competed by introducing bigger burger patties to increase market penetration. Burger King started the battle in an aggressive campaign to increase its market share at the expense of McDonald's. It added a full ounce of beef to its 1.8 ounce regular patty and followed this with an intense advertising campaign based on the slogan, "Get Your Burger's Worth," directed at McDonald's burger, which then was 40 percent lighter. The campaign worked for Burger King for a while, and its market share rose by 18 percent, but then in a nonprice tit-for-tat, McDonald's announced that it would enlarge its regular patty by 25 percent to beat back the challenge from Burger King and from Wendy's, which has always offered a larger burger (and whose "Where's the Beef?" slogan helped it gain market share).

Burger King and McDonald's have also pursued market penetration by opening up new kinds of restaurants to attract customers. Because all of the big chains have thousands of restaurants each, many analysts thought that the market was saturated, meaning that it would not be profitable to open more restaurants. However, McDonald's in particular has opened hundreds of restaurants in new locations, such as gas stations and large retail stores (for example, Wal-Mart), and new kinds of restaurants, such as small ones at airports and those that contain indoor playgrounds. These moves have helped it protect its market share and maintain its margins.

The main burger chains are also constantly experimenting with product development and introducing improved kinds of burgers to appeal to regular customers—burgers that add cheese, bacon, different kinds of vegetables, and exotic sauces, and new kinds of burgers, such as diet or low-fat burgers to attract new customers. They also all introduced whole-meal offerings, such as McDonald's "value meals," to provide a competitive package to attract customers. Individual restaurants are also allowed to customize their menus to suit the tastes of customers in the region in which they are located. For example, McDonald's restaurants in New England have lobster on the menu, and those in Japan serve sushi. Such product development is a major part of competitive strategy in the industry.

Recognizing the competition from other kinds of fast food chains such as those specializing in chicken or Mexican food, the burger chains have also moved to broaden their menus. McDonald's, for example, offers chicken dishes, pizza, and salads and increasingly tries to be a one-stop shop for all kinds of foods. This is a form of product proliferation designed to keep customers coming back. It makes it more difficult for a competitor or potential entrant to find a new food niche to take advantage of and attract away customers.

In the mature fast food industry, developing new competitive strategies to fend off attacks by other companies within the industry and to protect and enhance competitive advantage is a never-ending task for strategic managers. Indeed, recently, a franchisee in Orlando announced a new gourmet McDonald's restaurant. In a restaurant featuring gilded decor and sophisticated game and media rooms, they will serve white pizza, barbecue pizza, crème blur cheesecake with raspberry oculus, and cappuccino. Can this really be McDonald's?

Sources: R. Gibson, "Bigger Burger by McDonald's: A Two Ounce," *Wall Street Journal*, April 18 1996, p. B1. www.mcdonalds.com (2002). D. Leonhardt, "McDonald's: Can It Regain Its Golden Touch?" *Business Week*, February 28, 1998, pp. 22–27. D. Leonhardt and A. T. Palmer, "Getting off Their McButts," *Business Week*, February 22, 1999, pp. 65–66. "Gourmet McDonald's? Central Florida Has It," *Orlando Sentinel*, December 19, 2001, p. A4.

6.3 STRATEGY IN ACTION

Nonprice Competitive Strategies at Nike

Nike, headquartered in Beaverton, Oregon, was founded by Bill Bowerman, a former University of Oregon track coach, and Phil Knight, an entrepreneur in search of a profitable business opportunity. Bowerman's goal was to dream up a new kind of sneaker tread that would enhance a runner's traction and speed, and he came up with the idea for Nike's "waffle tread" after studying the waffle iron in his home. Bowerman and Knight made their shoe and began by selling it out of the trunk of a car at track meets. From this small beginning, Nike has grown into a company that sold more than $18 billion worth of shoes in the $40 billion athletic footwear and apparel industries in 2008 and made more than $1.8 billion in profit.

Nike's amazing growth came from its business model, which from the beginning was based on differentiation; its strategy was to innovate state-of-the-art athletic shoes and then to publicize the qualities of its shoes through dramatic "guerrilla" marketing. Nike's marketing is designed to persuade customers that its shoes are not only superior but also a high fashion statement and a necessary part of a lifestyle based on sporting or athletic interests. Nike's strategy to emphasize the uniqueness of its product obviously paid off as its market share soared. However, the company received a shock in 1998, when its sales suddenly began to fall; it was becoming more and more difficult to design new shoes that its existing customers perceived to be significantly better and worth their premium price—in other words, its strategy of market penetration and product development was no longer paying off. Phil Knight recruited a team of talented top managers from leading consumer products companies to help him change Nike's business model in some fundamental ways.

In the past, Nike shunned sports like golf, soccer, rollerblading, and so on, and focused most of its efforts on making shoes for the track and basketball market segments. However, when its sales started to fall, it realized that using marketing to increase sales in a particular market segment (market penetration) can only grow sales and profits so far. So Nike took its existing design and marketing competencies and began to craft new lines of shoes for new market segments. In other words, it began to pursue market development and product proliferation as well as the other nonprice strategies. For example, it revamped its aerobics shoes and launched a line of soccer shoes and perfected their design over time; by the mid-2000s, it took over as the market leader from its archrival Adidas. In addition, it launched its Total 90 III shoes, which are aimed at the millions of casual soccer players throughout the world who want a shoe they can just "play" in.

To take advantage of its competencies in design and marketing, Nike decided to enter new market segments by purchasing other footwear companies that offered shoes that extended or complemented its product lines. Continuing its pursuit of product proliferation, it bought Converse, the maker of retro-style sneakers, and Official Starter, a licensor of athletic shoes and apparel whose brands include the low-priced Shaq brand. Allowing Converse to take advantage of Nike's in-house competencies has resulted in dramatic increases in the sales of its sneakers. Nike also entered another market segment when it bought Cole Haan, the dress shoemaker. Nike also entered the athletic apparel market to use its skills there, and by 2004, apparel sales were more than $1 billion. Nike's new strategies significantly strengthened its differentiation business model, which is why its market share and profitability have continued to increase and are the envy of its competitors.

Sources: http://www.nike.com, press release, 2004; "The New Nike," http://www.yahoo.com (2004), September 12; A. Wong, "Nike: Just Don't Do It," *Newsweek*, November 1, 2004, 84; http://www.nike, 2009.

Strategy in Action

How to Make Money in the Vacuum Tube Business

At its peak in the early 1950s, the vacuum tube business was a major industry in which companies such as Westinghouse, General Electric, RCA, and Western Electric had a large stake. Then along came the transistor, making most vacuum tubes obsolete, and one by one, all the big companies exited the industry. One company, however, Richardson Electronics, not only stayed in the business but also demonstrated that high returns are possible in a declining industry. Primarily a distributor (although it does have some manufacturing capabilities), Richardson bought the remains of a dozen companies in the United States and Europe as they exited the vacuum tube industry. Richardson now has a warehouse that stocks more than 10,000 different types of vacuum tubes. The company is the world's only supplier of many of them, which helps explain why its gross margin is in the range of 35 to 40 percent.

Richardson survives and prospers because vacuum tubes are vital parts of some older electronic equipment that would be costly to replace with solid-state equipment. In addition, vacuum tubes still outperform semiconductors in some limited applications, including radar and welding machines. The U.S. government and General Motors are big customers of Richardson.

Speed is the essence of Richardson's business. The company's Illinois warehouse offers overnight delivery to some 40,000 customers, processing 650 orders a day, whose average price is $550.[22] Customers such as GM don't really care whether a vacuum tube costs $250 or $350; what they care about is the $40,000 to $50,000 downtime loss that they face when a key piece of welding equipment isn't working. By responding quickly to the demands of such customers and by being the only major supplier of many types of vacuum tubes, Richardson has placed itself in a position that many companies in growing industries would envy: a monopoly position. In 1997, however, a new company, Westrex, was formed to take advantage of the growing popularity of vacuum tubes in high-end stereo systems, and by 1999 it was competing head-to-head with Richardson in some market segments. Clearly, competition can be found even in a declining industry.

7.3 STRATEGY in ACTION

Warfare in Toyland

Toys 'R' Us, based in Paramus, New Jersey, grew at an astonishing 25 percent annual rate throughout the 1980s and today holds a 20 percent share of the $15 billion retail toy market, which makes it the industry leader. To reach its commanding position, the company used a strategy of market penetration based on developing a nationwide chain of retail outlets and a cost-leadership strategy. To lower costs, Toys 'R' Us developed efficient materials-management techniques for ordering and distributing toys to its stores. It also provided only a low level of customer service. Together, these moves allowed it to obtain a very low expense-to-sales ratio of 17 percent. Toys 'R' Us then used its low costs to promote a philosophy of everyday low pricing. The company deliberately set out to undercut the prices of its rivals, and it succeeded. In fact, its two largest competitors in the 1980s, Child World and Lionel, went bankrupt.[22] Pursuing a market-penetration strategy based on low cost thus brought spectacular results for Toys 'R' Us.

In the 1990s, however, the company's commanding position was threatened by a new set of rivals, which were also pursuing market-penetration strategies. Companies such as Wal-Mart, Kmart, and Target Stores rapidly expanded the number of their stores and beat Toys 'R' Us at its own game by selling toys at prices that were often below those of Toys 'R' Us. Indeed, Toys 'R' Us saw its sales fall from 25 percent in 1990 to 17 percent by 1999, and Wal-Mart is now the market leader with 18 percent.

The new competition squeezed profits for Toys 'R' Us and forced the company to turn to nonprice competition to attract customers. For example, Toys 'R' Us promoted its wide range of products as a competitive advantage; it made its stores more attractive; and it also increased the level of customer service by offering customers more personalized attention. In addition, it also went on-line and is in the process of developing a major Web presence. However, it was slow to do so and eToys, an Internet start-up, is the current leader in this market segment.[23] However, analysts feel that Toys 'R' Us, under newly appointed CEO Bob Moog, is rebuilding its brand name and that the company is poised to regain its leading position in the industry.