



Strategies for Managing Mature Products

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All companies face the problem that even their most successful products become mature at some point. What should managers do when such commoditization is imminent? Focus on core competence? Diversify? Add value in different ways? Speed up the rate of innovation in the product category? All these actions have been suggested as possible alternatives. Two leading technology companies, Intel and Hewlett-Packard, illustrate both the challenges that managing mature successful products pose and some of the responses companies need to consider.

Intel, the leader in microprocessor market share, shows a consistent pattern of rapid decline in pricing for each new generation of microprocessor that it introduces. And this trend, a symptom of product maturity, has been speeding up.

Increasingly, Intel has chosen to focus its marketing on additional value customers get from its chip architecture instead of merely extolling the speed of chips. With the Centrino line, it has bundled wireless capability into its platform (the combination of processor and related chips). For portable computers, the Pentium M has trumpeted its improved energy consumption. For the Intel brand, the strategy has been to broaden the benefits it provides to PC makers by providing more emphasis on features targeted at the changing needs of customers. The previous differentiating feature, microprocessor speed, has become decreasingly important as faster chips have overshot customer needs.

In the field of printing, H-P has been the dominant player for the past twenty years, with the highest market share in inkjet and laser printers, printing supplies, large format scanners and print servers. It holds 9,000 patents globally, adding 1,000 new ones each year. And its products keep improving. Quality and speed have increased dramatically, with printing speed typically doubling every 18 months.

We forget today, that in the early years of the printer business, there were daunting uncertainties about how the market would evolve. These included: the size of segments of the market, demand and price elasticity, the rate of adoption in homes and offices, and the type of processors computers would use. Many of these issues now seem predictable and other challenges have replaced them. While Moore's law (the doubling of transistors every 18 months) is well known, similar technological trends for cameras and printers make the printer market as demanding, and have required superb execution from H-P since its entry into the market. For example, as digital camera photographic sensors rapidly improve from 1 to 3 to 5 or more megapixels, they drive demand for new and better printers.

Over its 20-year reign H-P's value chain has evolved dramatically. As a market pioneer, it began by having to do everything in-house in order to push the technology boundaries. Over time it has gradually outsourced non-key components of manufacturing.

Reconfiguring the value chain at H-P

Component	1985	2005
Ink	In-house <ul style="list-style-type: none"> Making the ink required breakthroughs in basic chemistry 	Outsourced <ul style="list-style-type: none"> Interactions with other components well understood and stable
Orifice Plate	In-house <ul style="list-style-type: none"> Critical determination of performance 	Partially Outsourced <ul style="list-style-type: none"> H-P still has cost leadership, the gap is narrowing
Ink Chamber	In-house <ul style="list-style-type: none"> Critical determination of performance 	In-house <ul style="list-style-type: none"> Growth in the printer business depends upon a variety of function-specific printers This component drives customization
	2000	2005
New Technologies	Partially Outsourced <ul style="list-style-type: none"> Strategic alliances with firms exploring new technologies 	In-house <ul style="list-style-type: none"> H-P can expand its competence base through "informed acquisition"

Both Intel and H-P have recognized that identifying what their current core competence is will not provide them with the strategic advantage they seek. Instead, the marketplace and the evolving value requirements of customers and potential customers should drive every decision a business makes about what activities to focus on; what innovations to add to products; what to outsource; and when and how to change. In other words, *being competitive* is about meeting the needs of customers better than your competition; *staying competitive* is about learning new tricks sooner and better than your competition. Selecting (1) the right R&D strategy and (2) better execution of the product life cycle management processes to speed up development are critical in rapidly changing markets.

Purpose of this paper	Two leading technology companies, Intel and H-P, illustrate both the challenges that managing mature successful products pose and some of the responses companies need to consider.
Design/methodology/approach	A major consulting firm studied public data about two firms and consulted with their senior managers.
Findings	Both Intel and H-P have recognized that the marketplace and the evolving value requirements of customers and potential customers should drive every decision a business makes about what activities to focus on; what innovations to add to products; what to outsource; and when and how to change.
Research limitations/implications (if applicable)	More studies are needed on selecting (1) the right R&D strategy and (2) better execution of the product life cycle management processes to speed up development
Practical implications (if applicable)	The Intel and H-P cases suggest that being competitive is about meeting the needs of customers better than your competition; staying competitive is about learning new tricks sooner and better than your competition. Selecting (1) the right R&D strategy and (2) better execution of the product life cycle management processes to speed up development are critical in rapidly changing markets.
What is original/value of paper	This article provides a wake up call to any manager who assumes that a firm can innovate its way to sustained competitive advantage. Commoditization can happen rapidly, even on the cutting edge of high tech.

Author's note: Stephen Nigro, SVP Imaging and Personal Systems Group, H-P provided insight for this article. Graphics © Deloitte Consulting LLP, 2005.

Key words: mature products, commoditization, core competence, pricing decline, competitive advantage, Intel and Hewlett-Packard

Quotes:

"Two leading technology companies, Intel and Hewlett-Packard, illustrate both the challenges that managing mature successful products pose and some of the responses companies need to consider."

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