How to Cannibalise your Cash Cow

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In 1976, Kodak was untouchable. They controlled 90% market share of the photographic film sales in the USA. During most of the 20th century, their name was synonymous with the film. Despite inventing the first digital camera, they chose to focus on their cash cow. In the late 90s, Canon and Fujifilm came in and took over the market. Kodak was gone. Like many other companies in different industries, Kodak failed to cannibalise its cash cow and stay relevant. But why does cannibalisation happen and how can business leaders and employees prevent this to happen to their organisations?

All organisations are created with the hope that they will survive forever. But something happens once many organisations start to succeed. They forget to innovate. They forget to eat themselves. Most people would be surprised to discover that Kodak invented the digital camera, but it didn't commercialize it for fear of jeopardizing its film business. By the time Kodak realized its digital camera prototype was a game-changer, it was too late.

The same story of big companies being replaced by new or existing competitors is found in all industries. Nokia was dominant in the mobile telephone business. They controlled 41% of the global market in 2007. In less than 6 years, Apple took over the market and Nokia was down to 3% market share. This literally means they were gone.

Apple destroyed Nokia. Unlike Nokia, Apple was willing to compete against themselves. Apple integrated iTunes and music player functionality into the iPhone despite the fact that it could destroy the iPod. They launched iPad despite the possibility that it could reduce MacBook sales. As CEO Tim Cook expressed it in 2013," Our core philosophy is to never fear cannibalisation. If we don't do it, someone else will".

Cannibalisation refers to a situation where a company introduces a new product or service that eats the sales or market share of the existing product. Rather than attacking a new market segment, the new product competes directly with the existing product in the same market. This results in a reduction in the sales volume of the existing product. A cash cow is a venture, investment or product that generates a steady income or return of profits that far exceed the outlay of cash required to run it.

Cannibalization occurs in two ways. The first one is through general competition from new interested players. The second is through channel changes because of technology or consumer changes.

An example of channel changes is Shell Oil which used to operate in Zimbabwe. Shell enjoyed huge healthy market share for passenger car motor oils. Their major channel of distribution was service stations. In the late eighties, new stores such as Kmart and Big W were opened. They started selling passenger car motor oils at huge discounts and people loved it. Shell ignored the customers. Their market share dropped. In the mid-nineties, they then decided to listen and became the third preferred supplier. Although it was too late to regain dominance, they redressed the falling market share.

Kodak and Nokia are not the only ones who underestimated the power of technology to change the industries. The music and movie industries are some of the examples. The introduction of iTunes and movie streaming channels such as Netflix changed the whole game for companies that relied on recorded cassettes and discs such as Blockbuster.

Consumer tastes changes every day. With the use of social media and networks such as Facebook, Twitter or YouTube, people are easily persuaded to try new better things.

Product or market cannibalisation happens whether we like it or not. However, it is a choice to cannibalise our own markets or competitors do it for us. Below are some of the strategies that can be used to reduce the risk of cannibalisation.

- **Create new businesses or products that compete with the existing one.**

One of the best ways for companies to cannibalise themselves is by constantly creating businesses that compete with the existing one. Apple has embraced this culture very well. From the time Steve Jobs was still alive, Apple introduced products that compete with each or completely destroy the other one. Jobs destroyed the iPod by launching the iPhone which combined the iPod, cell phone and internet access. Even when the demand for the iPod mini was still big (the cash cow), he introduced the Nano. Apple introduced the iPad knowing it will affect the sales of the MacBook.

A Zimbabwean furniture company Dreatol which focuses on high-end furniture created Wooden Paradise a furniture subscription business unit to compete with the main company. The executives knew that customers can easily move from paying large sums of cash upfront to a model where they pay a small subscription fee to get the same unique high-quality modern piece of furniture. They did it because many consumers are starting to move away from product ownership to users way of life.

Tencent is China’s largest and most used internet service portal and gaming company. Before the smartphones came along, they used to dominate with their online instant messaging service QQ. Because of smartphones, they failed to capture new users. The executives ordered a new separate team to work outside the headquarters in Shenzhen. The team was tasked to reimagine and create a social media platform. They gave birth to WeChat. Today users can do almost anything on WeChat. The team is keeping on launching new services, from mobile payments to booking doctor appointments, from police reporting to taxi-hailing, from video conferencing to mobile banking services.

- **Customise the marketing and distribution channels**

One of the common phrases used in marketing is, “When you are in Rome, speak Roman”. P&G is very good at this. Tide Naturals is custom made laundry brand for the Indian market. This brand was launched specifically for India despite P&G having other laundry brands such as Cheer, Daz, Dreft and Tip.

P&G culture is to make sure that when they enter a market, they adopt a marketing approach that suits the local's taste and tradition. Tide Naturals cannibalised P&G's existing laundry products market share. Nestle sells Cerevita in small packets that make it affordable by people in developing countries such as Zimbabwe.

Forever 21 is another example of what happens if you don't create and adapt to new distribution channels. Everyone who knows Forever 21 knows them by fast growth. They expanded into new cities and markets building brick and mortar stores at a must faster rate (one every six months). They didn't pay attention to the rise of social media and online sales. Because of decreasing revenues from 4.4 billion in 2016 to 3.3 billion in 2018, they filed for bankruptcy.

- **Create a flat organisational structure**

Companies that cannibalise themselves every day keep flat structures. Apple has a flat structure with 17 directors reporting directly to Tim Cook. Great ideas tend to get filtered as they move up the corporate ladder. To counter this tendency, Amazon created a flat structure and a "Yes" culture. This means that if any employee has an idea, no executive or employee is allowed to just say no. If you say no to a new idea, you are required to write a 2 pages thesis describing why you think the idea is bad and post it on the public. Otherwise, the idea is given a chance to see the market reaction.

At Valve a software company in Seattle, there is no managers or reporting lines. Employees join as self-starters and are allowed to come up with new ideas and test them. Employees work in small teams. Each employee can decide which team they want to join and work with. Such structure is promoting more innovation. Valve has more revenue per employee than Microsoft.

Google implemented the OKR (Objective and Key Results) management system. An employee from the CEO create their own OKR and post it on a server where each employee can view freely. This means that any employee can know who is working on what.

A company called Recruit implemented a similar idea. They host several idea pitch days when operating managers can showcase unconventional proposals to senior executives directly, bypassing the management hierarchy entirely.

- **Measure and incentivise new ideas**

"What can't be measured doesn't get managed", says Edward Deming. You have to measure growth if you want to manage it. A company called 3M uses the 30% rule. This means that 30% of each division's revenue should come from products introduced in the last four years.

At Tencent, Google, Amazon and Recruit, similar metrics are tracked rigorously and employee bonuses are based on the successful achievement of this goal. Research has shown that large companies have an advantage derived from their ability to integrate and reconfigure offerings and services based on their prior capabilities. Start-ups may move fast, but they lack experience. Big companies, by contrast, possess a wealth of knowledge and know-how.

In the long run, businesses must find a way to eat the cash cow or someone else's will. If fighting against your initial idea means you can come up with an innovative product, why wouldn't you take the risk?

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