



Transitioning From Fast Growth to Maturity

Surviving & capitalizing on the transition from high industry growth to industry maturity.

By Jean Van Rensselar

It's nearly impossible to predict when an industry will mature, but when it does, it's impossible to ignore. Here are a few hallmarks of a maturing industry, notice how many of these apply to the tech industry now:

1. Slowed industry-wide growth and stiffer competition for market share
2. Companies are increasingly selling to sophisticated, repeat buyers.
3. The buyer's choice is no longer whether to purchase the product, but rather which brand to choose.
4. Competition shifts away from quality and toward cost and service.
5. Capacity increases and personnel additions dwindle
6. Basic functions such as marketing, distributing, and selling are becoming less effective.
7. Revolutionary products are becoming rarer.
8. Profits fall – for some companies, only during transition; for others, permanently.
9. Resellers lose margins, but gain power as others drop out.

The transition from rapid growth to maturity is a critical period that some companies will survive and some won't. The difference is whether a company can adapt by radically altering its strategies – especially its competitive strategy.

Changing Strategies

During periods of rapid industry growth, companies can make – even major – strategy blunders and recover. This is not true when an industry is reaching maturity, where poor strategy (or lack of strategy) can be fatal. Key strategy considerations include the following:

- Pay Attention to Product Mix and Pricing: Not only is increased attention to pricing strategy important, but so is consideration of the specific product mix, rather than just categories. Be prepared for at least one competitor that will temporarily lower prices to an unsustainable level.
- Focus on Current Customers Given the tendency for existing customers to repeat purchases, it makes sense to put more energy into marketing to your existing customer base, rather seeking out new customers. As the industry gets more competitive, trying to battle for market share will become more expensive. Instead, identify your best buyers and create strategies, such as loyalty programs, to cement the relationship.
- Look for Bargain Acquisitions and Assets As other companies falter or leave the industry, keep an eye out for bargain acquisitions and discounted assets.
- Look for Niches and Specializations With increased focus on pricing and service during industry maturity, even if you aren't the low-cost or service leader now, you *can* secure that position within a niche of custom products.
- Go Global If you currently aren't competing internationally and there's a region where the market is less saturated (where your industry is still growing rapidly) consider making the move.

Tighter budgeting, stricter control, and stepped-up performance incentives – in short more attention to detail and increased accountability for results - are critical for surviving the transition to industry maturity.

Maladaptive Responses

A prime example of poor adaption is clinging to a differentiator that is no longer true or relevant (if it ever was), i.e. *Unmatched Quality*. The fact is, consumers may have stopped associating you with quality long ago. Moreover, the tech industry in particular has evolved to the point where end users don't care as much about the quality of products and services; mostly because the difference in quality tends to even out as industries mature.

Other times, as industries mature, companies react to the need for new competitive strategy with resentment – refusing to compete on price because of *principle*. “We’ve never done that before and we’re certainly not going to start now” – as if responding to new industry demands is beneath their dignity. Or companies may misinterpret clear trends by seeing them as temporary disruptions.

Some companies can't make the change because management lacks the necessary skill. Sometimes this means that the original strategy and organization structure continue rigidly, other times it means that excellent managers with inadequate adaptive skills leave. One way around this is to rotate managers – forcing them into new learning environments.

Assuming that you've been following Apple's recent releases, you'll notice that they're placing less emphasis on innovation and creativity and more on improvements to existing products and aggressive marketing. This is a proven and positive competitive response in a maturing industry.

Interestingly, it's often the flexible smaller companies that thrive during and post transition. The ability to respond quickly with fewer oversight restrictions means that a smaller company can retool and implement new strategy more easily.

Making the Transition

For companies that have deliberately fostered a family work environment, this transition will likely mean a change to a more rational, formal, and impersonal corporate culture. If lay-offs and salary cuts become necessary, resentful employees will take care of this cultural change for you.

This is not necessarily a bad thing. A family-like culture carries a lot of risks that many companies have discovered the hard way. Employees who consider themselves family tend to respond to difficult situations like family (emotionally and sometimes irrationally). They take business decisions personally and make it very hard for management to keep a clear head – when it's most imperative to do so.

Much of the excitement in the early growth phase – the sense of adventure, rapid promotions, superstar salespeople, industry awards, ambitious financial targets, is gone. The transition to industry maturity (like the transition to human maturity) is the time to knuckle down and master the mundane. Four key steps are:

1. Scale down financial performance targets When you push employees to meet rapid growth phase targets, they may end up – out of desperation – taking actions that are (in the words of Michael Porter) *extremely dysfunctional for the long-run health of the company*.
2. Demand more Discipline In this increasingly competitive environment, there should be less tolerance for slack, less tolerance for sabotage, and less tolerance for hostile challenges to managerial authority.
3. Be Realistic about Advancement Expectations Find other ways to reward success – motivate with encouragement and support instead. Be sure that all employees know this is the new normal and not a reflection on the value of any one person or group.
4. Be Generous with Unexpected Little Gifts. Research shows that people appreciate any unexpected gift as long as it has some value for them. The monetary value is of very little importance

Once they come to the realization that structure and focus must change, this period of transition from high growth to maturity can be particularly difficult for highly successful entrepreneurs who are also acting as managers.

Those companies that refuse to look at (or that misinterpret) reality, and then fail to react – or react to an illusion – will decline and fail. Companies that are able to capitalize on the critical instability of a transitioning industry with keen insight, clear-headed strategy, and impeccable implementation are likely to survive and go on to thrive.

Portions of this article are based on Michael Porter's excellent classic, *Competitive Strategy: Techniques for Analyzing Industries and Competitors*. Like all of Porter's books, it's a treasure of practical theory and concrete advice on smart, sustainable competitive strategy.

About the Author

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