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Why Dominant Companies Are Vulnerable

A brief look at recent research suggesting that when people feel restricted in their choices of a product or service, they may turn away from the market leader, by Kyle B. Murray and Gerald Häubl

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[STRATEGY]

Why Dominant Companies Are Vulnerable

Recent research suggests that, as consumers feel that their choices are restricted, many respond by turning away from the market leader.

BY KYLE B. MURRAY AND GERALD HÄUBL

It is widely assumed that in many technology markets, dominant players have a powerful advantage and often are able to leverage that edge over time. But this is not necessarily true. Over the past decade, popular social networking sites including Friendster, MySpace and Bebo initially picked up a large number of users only to lose ground to new competitors and fade into the background.

Facebook, by contrast, has succeeded at dramatically expanding its position in the global market, even as it has worked to manage an increasing number of dissatisfied users. Similar patterns of emergence, growth and dominance, followed by consumer disenchantment or ambivalence and a loss of brand equity have affected well-known technology companies such as Microsoft and AOL. Why do companies move from market strength to vulnerability?

Research has shown that several factors influence a company's ability to retain market leadership, among them technological innovation, changes in market structure, short product life cycles, capital strength and promotional prowess. However, one critical factor has largely been ignored: the psychological forces that drive decisions consumers make and, specifically, the degree to which people feel they have choices. Over the past decade, we have taken a behavioral economics approach to analyzing this phenomenon.

Once people have learned a company's unique technology interface, they become more efficient using that interface and are often reluctant to switch to competing products that require new skills or allow for only limited transfer of current skills. As companies such as Microsoft have demonstrated with its Windows operating system and Office software, early movers with dominant market shares are in an ideal position to provide customers with interface-specific experience that creates this type of competitive advantage.

To examine this phenomenon, we created a set of unique websites that allowed consumers to search for a variety of news stories. We then ran a series of experiments to examine the extent to which consumers' preferences were affected by interface-specific experience. Some participants were allowed to choose the website they learned to use while others were assigned to a single interface and given no alternatives. We found that once consumers learned to use a particular interface, they were reluctant to switch; in some cases, the initial website retained all of its users, and the competing interface ended up with zero market share.

But we also found that there were limits

Apple's TV ads — like the one excerpted here — have humorously contrasted Macs and Windows-based PCs. But when Microsoft invested money in Apple in 1997 to ensure Apple's survival, it may have been a smart strategic move for Microsoft.

RELATED RESEARCH

- **K. Murray and G. Häubl, "Explaining Cognitive Lock-in: The Role of Skill-Based Habits of Use in Consumer Choice," Journal of Consumer Research 34, no. 1 (June 2007): 77-88.**
- **K. Murray and G. Häubl, "Freedom of Choice, Ease of Use and the Formation of Interface Preferences," MIS Quarterly 35, no. 4 (December 2011): 955-976.**

to how far leading companies can leverage this product loyalty via customer training and a unique interface. Specifically, 51% of consumers who had no choice in selecting the interface they learned to use switched to a competing website as soon as it was available. By contrast, among consumers who were free to choose the website they would learn to use, only 23% switched to the competitor, despite the fact that other users rated the competitor's website superior on several dimensions (including ease of use, fun, efficiency and effectiveness). In short, we found that the market leader's advantage in being able to install a set of nontransferable user skills in its customer base is offset by *psychological reactance*, a force that motivates people to act against perceived constraints on their freedom of choice.

Turning Away From the Leader

Psychological reactance works like this: As people learn to use a particular electronic interface associated with information search or online shopping, for example, they often become locked in and develop extremely high levels of loyalty even when otherwise equivalent competitors are available; the cost of switching outweighs the benefit of using another product. However, our research indicates that the depth of loyalty weakens when consumers feel that their freedom to choose is restricted. Specifically, as people feel that their choice is constrained and that one interface dominates the market, they react against the constraint by

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turning away from the market leader's offering, thereby subjecting themselves to the associated costs of switching.

Companies that appear to have the power of a monopoly thus become surprisingly vulnerable to customer defections. We have seen this with Microsoft's Internet Explorer, where total market share fell from 67% in September 2008 to 39% by September 2011, while the market share of Google's Chrome browser grew from 1% in September 2008 to 22% by September 2011. In fact, our results suggest that, although there may be no objective quality difference between a dominant company's product and that of a new competitor, consumers come to perceive the market leader's offering as being more burdensome to use than the alternatives. This is true even when consumers are objectively more skilled with the dominant interface, suggesting that when a viable competitor becomes available, many consumers are predisposed to switching to the alternative. That is not to say that all customers will make the switch overnight. However, when an attractive alternative becomes available, the market leader is especially vulnerable to losing those consumers who feel that the dominant company has restricted their ability to freely choose the products that they use.

Our research has important implications for executive teams, both at leading companies and their competitors, and some of the implications are counterintuitive.

Implications for Market Leaders Given the risks of triggering psychological reactance among current and potential users, market leaders should be careful about becoming too dominant and appearing too *successful*. Ironically, it may be good business to support and even cultivate competitors. Our findings suggest, for example, that when consumers believe they have freely chosen to use a Windows-based PC over a Mac, they may be substantially more likely to be loyal Microsoft customers. This also suggests that Microsoft, by investing $150 million in Apple in 1997 to ensure its survival (and thereby giving consumers a real choice in operating systems), may have taken an important step toward maintaining its dominance in its core PC markets.

Implications for Smaller Competitors Market-leading companies will be at a disadvantage if and when their dominance triggers reactance within their customer base. In such cases, they will need to appeal to their customers who are motivated to find reasonable alternatives offered by other, perhaps smaller players, particularly if they are able to reapply the skills they have learned. For example, Google's continued dominance of Internet search could give rise to a segment of reactant users actively seeking an acceptable alternative.

Given the choice, companies might be better off maintaining the image of being small. This could influence consumers to see the user interface as easier and more attractive than it otherwise would seem. In fact, markets with exceptionally strong incumbents may be ripe for entry when psychological reactance produces a segment of consumers ready to switch. Ironically, the early success of a new online service (such as iPhone's app store) may also make it more vulnerable to competition (e.g., from Google's Android apps).

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A complex set of factors affects the choices that consumers make in rapidly evolving markets such as mobile apps, social networks and other emerging electronic interfaces. Aggressive players respond by focusing on product development, branding and rapidly gaining critical mass. Our research suggests that an important driver of consumer loyalty is the extent to which individuals feel that they have a choice in the interface they use, and that psychological reactance can have substantial effects on both consumer preferences and market shares.

There is still much that we do not know about how dominant companies might be able to counteract reactance. It's possible, for example, that when a company leads the market by rapidly refreshing and innovating within its product lines — as Apple has done with its iPod, iPhone and iPad — it can continually exceed consumers' expectations and minimize psychological reactance. Small market shares or even failure in other product lines might mitigate reactance. (For example, Apple holds a dominant share in the tablet market, but has a relatively small share in desktops and laptops.) Ultimately, market leaders that wish to remain dominant should seek to find a way to address their vulnerability to consumer reactance. The key to success seems to be having consumers locked-in while making them feel they are still free to choose. Customers who perceive themselves as being able to switch to a competitor at any time are more likely to be satisfied and less likely to defect.

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