IMPACT: International Journal of Research in Business Management (IMPACT: IJRBM)
ISSN(E): 2321-886X; ISSN(P): 2347-4572
Vol. 2, Issue 8, Aug 2014, 41-48
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THE IMPACT OF PRODUCT CANNIBALIZATION ON CONSUMER PURCHASING DECISION -AN ATTITUDINAL CONFLICT PARADIGM

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ABSTRACT

This paper tries to determine the magnitude of the product cannibalization on generic purchasing decision and the consequent effort towards attitudinal conflict regarding the purchasing decision of consumers. This paper contributes a generic framework for analyzing product cannibalization. Although the factors affecting product cannibalization in mature product portfolios have been well studied, issues regarding the attitudinal conflict of consumers and its impact on consumers purchasing decision have not been addressed in the context of cannibalization. Since it is critical to be able to estimate the impact of a new product on purchasing behavior of consumers, this paper presents a descriptive model to discuss the issues associated with product cannibalization, specifically the impact of new product introduction on an existing product portfolio. The information processing model and different qualitative measures that can be used to understand the impact of cannibalization on consumer's purchasing decision are discussed; along with case studies to illustrate the cannibalization effects caused attitudinal conflict to consumers.

KEYWORDS: Product Cannibalization, Generic Purchasing Decision, Attitudinal Conflict

INTRODUCTION

Product Cannibalization refers to reduction in sales volume, sales revenue, or market share of existing product as a result of the introduction of a new product by same manufacturer or by competitors. Normally product cannibalization may consider negative, even in the context of a carefully planned strategy. It can be efficient, by eventually raising the total sales volume of a company's product, or superior consumer demands.

Cannibalization is a key consideration in product portfolio analysis. Product cannibalization is defined as "the process by which a new product gains sales by diverting sales from an existing product" by (Heskett, 1976, Harvey and Kerin, 1979). Copulsky, (1976) and Mason & Milne, (1994) have explain extent of Product cannibalization as the extent to which one product's customers are at the expense of other products offered by the same firm.

Cannibalization is a real threat for vast majority, prevalence of line extensions as manufacturers struggle to maximize the leverage of their brand equity has been explained by (Tabur 1981, Ries and Trout 1986, Aaker1991). (Ehrenberg, 1991) has stated that any new product entering a market will take market share from all the existing players and predicting these cannibalization as a critical and difficult task.

Ulrich and Tung (1991) suggested that excessive use of commonality could result in products of similar nature and cause product cannibalization. Paley (1991) defined modification as altering the feature of a product to create "newer"

ones that replace the existing product. Reddy et al. (1994) defined it as a percentage of the new product's sales which derives from the sales of an existing product with in the company's portfolio.

Product cannibalization occurs when a company decides to replace an existing product and introduce a new one in its place, regardless of its position in the market (i.e. the product's life cycle phase does not come into account). Reports have alleged that branded producers have used a variety of delaying tactics to avoid this "cannibalization" of their profits in the branded segment. One common means is for the branded firm to introduce and promote a new form of the concerned product with strategic effects, or tactic effects.

LITERATURE REVIEW

Cannibalization

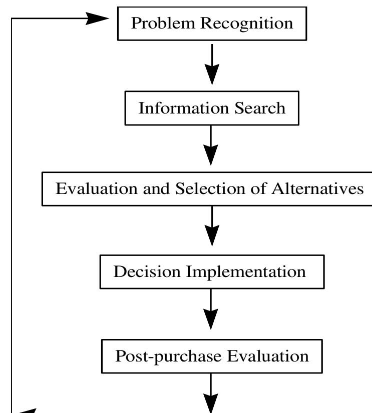
There is no one generally accepted definition of cannibalization. *Kerin et al. (1978)* use *Heskett's (1976)* definition: "the process by which a new product gains sales by diverting them from an existing product". *Mason and Milne (1994)* use *Copulsky's (1976)* definition and are less concerned with process than with magnitude. They define cannibalization as "the extent to which one product's customers are at the expense of other products offered by the same firm." But it is difficult for any manager to determine this – managers tend to take a more aggregate approach and look at sales volumes and shares, not at an individual's buying patterns. It also oversimplifies the construct which can be viewed on a number of levels.

The work of *Ehrenberg (1988)* and others would suggest that any new product entering a market will take share from all the existing players in proportion to their size. *Reddy et al. (1994)* define it as a percentage of total category sales. *Buday (1989, p. 29)* suggests that: Excessive cannibalization is one of the common arguments against brand extending. Common branding implies a similarity: similarity invites replacement. The problem of the extension merely becoming a replacement purchase for the parent is only likely to occur where the products are substitutes, as was noted by *Sullivan (1990).*

This is often assumed to be the case with line extensions – *Bunten and Simmons (1993)* cite the example of *Alka Seltzer Plus* whose sales volume was derived largely at the expense of the core brand. This effect can also be seen operating in the reverse direction. Birds Eye Walls' rationalization of their Arctic Roll range, from two red berry flavors with strawberry and raspberry to one only, had a negligible impact on sales. Previous purchases of raspberry were replaced with strawberry.

Lomax, Hammond, East and Clemente (1997) describe cannibalization as the situation when a new product in a line extension becomes popular, but at the expense of other existing products within the category and this encourages the customer to buy the line extension and to stop buying the original product. It is stated by *Reddy, Holak and Bhat (1994)* that cannibalization is the risk that does not occur in brand extensions, but in line extensions the potential for cannibalization is severe. *Speed (1998*) says that the risk of cannibalization is larger when the new product offer superior benefits compared to the original product is still similar to the original product, and the risk is also higher if the price of the new product is lower than the original. He also adds that though, the risk of cannibalization is modest when the prices of the two are the same.

CONSUMERS DECISION MAKING PROCESS



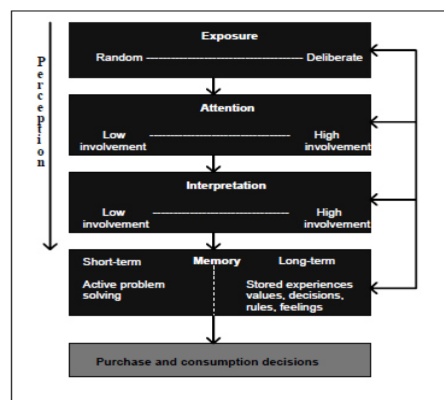
Source: Kotler (1997), Schiffman and Kanuk (1997), and Solomon (1996)

Figure 1: Stages in Consumer's Decision Making Process for FMCG Product

Every consumer has to take a decision before purchasing a specified product from the market. Purchasing is viewed as a process of consisting stages, in which every customer should go through. To purchase FMCG goods a customer has to go through this decision process. A self explanatory diagram of these five stages illustrated in Figure.1

Factors influencing Consumer Purchasing Decision

"Information processing is a series of activities by which stimuli are perceived, transformed into information and stored". The figure 2 below illustrates a useful information-processing model with four major steps or stages: exposure, attention, interpretation and memory. The first three of these constitute perception. According to *Antonides et al. (1998)*, consumers perceive reality in their own ways. Among them, subjective and objective perceptions stand out. Subjective perception is selective. However, this selectivity is essential nowadays to the overload of



Source: Hawkins et al., 2001, P.284

Figure 2: Information Processing for Consumer Decision Making

Information from the amount of offers on the market, people have to take this decision, which on the other hand can make them miss relevant information *(Antonides et al. 1998).*When a new product appears; the consumers have to decide in which category he/she should position it. For this, the consumer has to pay attention to the product's characteristics and personalities. Perception is the first step in giving meaning and place to a new product

(Antonides et al. 1998). Taking this into consideration, we will further use the model of Hawkins et al.(2001) to throw some light on what is the nature of perception and how does it work?

Exposure occurs when a stimulus such as a billboard comes within range of a person’s sensory receptor nerves - vision, for example. Attention occurs when the receptor nerves pass the sensations on the brain for processing. Interpretation is the assignment of meaning to the received sensations. Memory is the short-term use of the meaning for immediate decision-making or the longer-term retention of the meaning *(Hawkins et al. 2001).*

The figure above and the discussion suggest a linear flow from exposure to memory. However, these processes occur virtually simultaneously and are clearly interactive. That is, our memory influences the information we are exposed to, attend to and the interpretations we assign. At the same time, memory itself is being shaped by the information it is receiving. Both perception and memory are extremely selective. Of the massive amounts of information available, an individual can be exposed to only a limited amount. Of the information to which the individual is exposed, only a relatively small percentage is attended to and passed on the central processing part of the brain for interpretations. The meaning assigned to a stimulus is as much or more a function of the individual as it is the stimulus itself. Much of the interpreted information will not be available to active memory when the individual needs to make a purchase decision *(Hawkins et al. 2001).*

TYPES OF CANNIBALIZATION

Multi-Product Pack Cannibalization

Multiple products are marketed as one but could also be sold separately. The total price for the product pack is usually lower than the sum of the prices of the individual items, and thus, the pack will be bought rather than the separate items. The company receives lower revenues compared to a situation then all product items are sold separately. Although some product cannibalization may occur (the sales of the individual items may decrease), combining different goods and/or services in a package stimulates the total sales of all products included in it.

Intra-Product Cannibalization

It occurs as a result of a competition between different products with same or similar functional characteristics and same target market.

Inter-Product Cannibalization

It happens within the same product line. When the products are essentially the same in content, quality standard, duration, price range and form one product line in a company’s portfolio. The competition between these products can cause cannibalization within the product line. In general such inter-product cannibalization is desirable; because it increases the customer choice and the probability that the seller will offer a product that suits customer’s needs.

CANNIBALIZATION STRATEGIES

The cannibalization on company level is usually analyzed in relation with product or technology innovations which make existing products or technologies uncompetitive and obsolete. Companies can adopt offensive or defensive cannibalization strategies which they can use in different stages of product’s life cycle.

Cannibalize the Market to Attack the Market Leader

Cannibalizing an existing market is a successful strategy for attacking an entrenched market leader. The attacker erodes the position of the dominant company, although the attacker cannibalizes its own products in the process. The attacker hopes to compensate for its loss with increased market share in the redefined market.

Case of Sega Enterprises-Nintendo

Sega enterprises' attack on Nintendo's dominance of the $3.5 billion American video game market included a strategy to cannibalize its own video game software with a new form of software distribution. In '93 Sega formed a joint venture with Time Warner entertainment to offer Sega's video games through cable TV networks. The JV's Sega channel provided Sega's video games for a monthly fee of $20. This strategy could have significantly cannibalized Sega's own game software revenue, since Sega would receive a much lower license fee for software distributed through cable. However as a the market attacker Sega sought to increase its overall market share in both game players and software by redefining the market To be successful, it would need higher volume to offset lower profit per unit.

Defensive Cannibalization Strategy

For market leaders/ defenders, controlled cannibalization may be a necessary strategy to repel attackers. 'Cannibalize yourself before competitors do'. Self cannibalization may be necessary as a defensive strategy to keep an attacking competitor from being successful. With this strategy a company chooses to cannibalize its own products rather than let a competitor do so. Cannibalize your own business before someone else does. Changes and innovations are happening so fast and globally that they're striking, not at the margins of the profits and the outputs of the existing firms, but at their foundations and their very lives.

Case of Borders

In 1997, Borders, the dominant bookseller in the United States, refused to sell books online because its leadership feared cannibalizing store sales for cheaper, online sales. Eleven years later, Borders was cannibalized, but not by its online sales; Borders market share was swallowed by Amazon.com.

Case of Le-Sancy

Lux’s market standing was being threatened by the soon to be launched Camay from the house of Godrej to be marketed by P&G. HUL then launched Le-Sancy to counter Camay’s attack.

Effect of Cannibalization on Consumer Purchasing Behavior

Usually Indian consumers are emotionally attached towards purchasing a product. If they have chosen one product they always require the same concerned product for usage. But due to cannibalization in the product portfolio the consumer is unable to find the concerned product because of the dilution of the product. It’s very difficult for the consumer to get the same desired satisfaction level from the new product. So it leads an attitudinal conflict in the minds of the consumer towards the concerned product and brand, which automatically redirects the customer to shift to other product portfolio or brand.

Attitudinal Conflict- a Case of Coca-Cola

This is best illustrated by the "Cola Wars" - the marketing fight between Pepsi and Coca-Cola, which lasted most of the 1970s and 1980s. The soft drink rivalry pushed Coca-Cola Co. to make one of the most famous marketing blunders in financial history. In the process of creating Diet Coke, the company's chemists discovered a new formulation for Coke. The new concoction was sweeter and smoother than the century-old formula upon which Coke had been built. In fact, it was similar to Pepsi - the drink that was eating away at Coke's domestic market share.

On April 23, 1985, Coca-Cola Co. announced that New Coke was on its way. Because of a strong preference for New Coke in consumer taste tests, Coca-Cola decided to pull the old Coke formula from the shelves. Essentially, the company was throwing away a century of branding by favoring the new, relatively unknown formula over the one that consumers had grown up with. For Coca-Cola executives, this made sense. Much like with software companies that pull old versions from the shelf when a new one is released, they didn't want their old product line to keep consumers from buying their new one. Unfortunately, this bold move backfired horribly.

Consumers rebelled and flooded Coca-Cola with angry letters and phone calls. Coke's stock and market share took multiple hits and Pepsi even proclaimed victory in the Cola Wars now that Coca-Cola had copied its taste. The influx of complaints led to a "We've heard you" marketing reverse. On July 11, 1985, mere months after its sudden exit, the old formula was re-introduced with "Classic" added to the title - probably better than "Old Coke". Coca-Cola Classic quickly ate up the sales of New Coke in a textbook case of market cannibalization.

Effect of Cannibalization on Product Portfolio

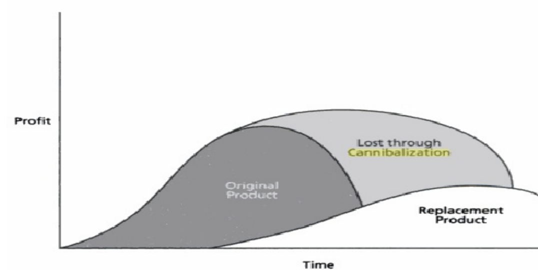


Figure 3: When Replacement Products are Introduced Too Early; They can Hurt Overall Sales and Cannibalize Profits

Companies shrink in righteous horror from the very concept of devouring others of their own kind. Product development, leads to drop in sales of one product, resulting from a competition of a substitute product, offered by the same company. Furthermore, these same products will compete not only for customers' money, but also for managers' and agents' attention, sales force time, company's resources, shelf space, customers' attention and memory.

The replacement product kills the original product before its time. Companies make their strategic mistakes in not understanding when cannibalization should be avoided and when it's appropriate. Cannibalization can reduce profits when the original product is still successful at the time the replacement product is launched and hence sales and profits start declining as sales are transferred to the replacement product.

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