Life Cycle Analysis

Stages of Industry Maturity

	Embryonic	Growth	Mature	Ageing
Dominant	Fast growth Start-up	Fast growth Attain cost leadership Renew Defend position	Defend position Attain cost leadership Renew Fast growth	Defend position Focus Renew Grow with industry
Strong	Start-up Differentiate Fast growth	Fast growth Catch-up Attain cos t leadership differentiate	attain cost leadership Renew, focus Differentiate Grow with industry	Find niche Hold niche Hang in Grow with industry Harvest
Favourable	Start-up Differentiate Focus Fast grow	Differentiate, focus Catch-up Grow with industry	Harvest, hang-in Find niche, hold niche Renew, turnaround Differentiate, focus Grow with industry	Retrench Turnaround
Tenable	Start-up Grow with industry Focus	Harvest, catch-up Hold niche, hang in Find niche Turnaround Focus Grow with industrv	Harvest Turnaround Find niche Retrench	Divest Retrench
Weak	Find niche Catch-up Grow with industry	Turnaround Retrench	Withdraw Divest	Withdraw

The table above illustrates the life cycle portfolio matrix used by business consultants Arthur D. Little. The market situation is described in four stages ranging from embryonic to ageing; the competitor position in five - weak to dominant. The purpose of the matrix is to establish the appropriateness of business strategy in relation to each dimension.

The position within the life cycle is determined in relation to eight external factors of the evolutionary stage of the industry. These are market growth rate, growth potential, breadth of product lines, number of competitors, spread of market share between these competitors, customer loyalty, entry barriers and technology. It is the balance of these factors which determine the life cycle stage.

The competitive position is also established by looking at the balance of characteristics of an organization within each category.

1. Where growth is occuring and/or a favourable competitive position exists, organizations can follow the natural development of the market, although this may be

achieved in different ways. The extreme case is the dominant organization in the embryonic industry.
It is likely to create natural growth which it can defend by moving faster than the competition or by cost leadership.

2. Weak organizations are unlikely to survive the lifecycle unless they identify and exploit a niche. As growth declines organizations must be more selective in their choice of strategy. In difficult situations (bottom right-hand comer of the matrix) decisions must be made as to which products/ markets should be pursued and which discontinued. A strategy of retrenchment is normally the first step, possibly followed by turnaround, divestment or even withdrawl.

3. It must be recognized that some strategic options take on different forms depending on the position within the matrix. A strategy of market development for a dominant company is likely to be achieved by the organization's own stimulation of new demand. In contrast, in more mature markets and a weaker competitive position, market development needs to be much more selective, targeting new segments or moving into new segments where conditions are more favorable.

4. Market Leaders can consolidate their position to gain a competitive advantage e.g. by exploiting superior cost structures, raising structural barriers or simply threatening retaliation. In declining markets leaders will induce competitors to leave the industry by buying them out or pushing for industry regulation.

5. Followers may enter an industry in the growth phase if a market leader is unable to meet potential demand. In a mature industry the most successful strategy for followers is to differentiate themselves from market leaders combined with a deliberate strategy of focusing on particular parts of the market. The need for followers to differentiate themselves in a declining market is vital and it is often the case that followers, if they are more specialized, will be the ones that survive.

Life cycle analysis can be used to determine the suitability of a business strategy with respect to its position within its industry and the industry position within the life cycle. A business strategy that is not aligned to prevailing industry circumstances risks being outmaneuvered by other industry players. Indeed defining the business and its industry is one of the most important strategic decisions management must take, eg. Does a railways operator compete against other railway operators or is it in the

business of transporting people?