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Recent Research

by Des Dearlove and Stuart Crainer

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On successful imitators, differentiated searchers, insecure fast-trackers, and more.

by Des Dearlove and Stuart Crainer

The Art of Imitation

Title: Performance Effects of Imitative Entry
Authors: Sendil K. Ethiraj (sendil@umich.edu) and David H. Zhu
Publisher: Self-published (*Strategic Management Journal,* forthcoming)
Date Published: December 2007
Available Online: http://ssrn.com/abstract=1066901

The first-mover advantage gained by companies that develop and launch innovative new products does not always translate into long-term success. That's because many savvy entrepreneurs and corporate executives have been successful at copying innovations, learning from the original's successes and failures, and producing products that surpass the product they mimic.

Under what conditions are these imitators most likely to erode the advantages of existing products? How does the timing of an imitator's entry into the market affect its success? To answer those questions, the authors explored the performance of 200 pharmaceutical drugs over two decades. Surprisingly, for an industry in which innovators

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enjoy strong patent protection, imitation drugs often outperformed pioneering products. The key to imitators' success was timing. By delaying the launch of their competing product and using that delay to learn as much as possible about the existing product from sources such as clinical trials conducted in accordance with the U.S. Food and Drug Administration guidelines, imitators were often able to create high-quality alternatives to the original drug, thus negating the innovator's advantage. The authors cite Viagra as an example: The drug's long product development cycle and the information that leaked out about it before its debut opened the door for two successful competing products — Levitra and Cialis — to come to market relatively quickly.

Bottom Line: Timing is key for those imitating an innovative product. By gathering information and waiting for innovators to overcome the challenges associated with pioneering new products, imitators can enjoy the rewards of bringing products to market with potentially better features relatively quickly and shoulder fewer risks faced by first movers.

Online Search Strategies

Title: Competing "Creatively" in Online Markets: Evidence from Sponsored Search
Authors: Animesh Animesh (animesh.animesh@mcgill.ca), Siva Viswanathan (sviswana@rhsmith.umd.edu), and Ritu Agarwal (ragarwal@rhsmith.umd.edu)
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Because search engines like Google and Yahoo are the most visited sites on the Web, sponsored search results, a form of online advertising in which companies bid to have their advertisements displayed alongside search listings, have become a popular form of marketing. Companies now spend nearly half of their online budgets on this type of promotion, and analysts predict advertisers will pony up a total of more than US$11 billion annually on search results advertising by 2010.

What makes an effective sponsored search ad? Until recently, most research on the efficacy of these ads focused on placement — that is, it was assumed that the best-performing ads were those that appeared at the top of the list of advertisements. But that is just one of several important variables, according to these authors, who tracked the performance of a mortgage company's sponsored search efforts for a three-month period in 2006. Their research found that although placement matters — ads at the top of a list did attract more clicks — the content of the advertisement and the amount of competition in the category significantly affected how well a specific ad performed. The research also yielded interesting insights about which types of consumers clicked on which ads: Those interested in quality were attracted to the top-ranked results, whereas bargain hunters were more likely to scan for a listing that offered the best savings.

The results suggest that savvy marketers should pay special attention to their sponsored search campaigns. By targeting advertising to specific demographics, tailoring landing pages — which appear when a searcher clicks on a link — to the searcher's tastes and preferences, and using other easy-to-implement techniques, marketers

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can use sponsored search to segment and reach a range of different potential customers.

Bottom Line: Placement is not the only element to consider in crafting a successful sponsored search campaign. Qualitative variables, such as the wording and targeting of ads, are also key factors to examine.

Transparency Is Overrated

Title: Unconventional Insights for Managing Stakeholder Trust
Authors: Michael Pirson (mpirson@ksg.harvard.edu) and Deepak Malhotra (dmalhotra@hbs.edu)
Publisher: Harvard Business School Negotiation, Organizations, and Markets (NOM) Unit, Working Paper No. 08-057
Date Published: January 2008
Available Online: www.hbs.edu/research/pdf/08-057.pdf

Many executives find it difficult to establish and maintain trust with skeptical stakeholders, whether employees, investors, or suppliers. Managing stakeholder trust often requires a nuanced view and intuitive understanding of the specific needs of particular interest groups. Firms that have figured out how to do that are better able to reap monetary rewards and maximize the value of their relationships with employees and other stakeholders.

The authors highlight several unconventional insights executives should consider. For instance, they found that transparency may have a negative effect on trust, and that building trust with one group of stakeholders can erode it with another group. Using a wealth of examples, including the unintended effects of the Sarbanes-Oxley Act and the various attempts by Coca-Cola Company and Mattel Inc. to recall hazardous products, the authors show how nuanced leaders must be in their approach to dealing with stakeholders. One interesting insight concerns honesty and openness in corporate financial reporting. The authors postulate that Sarbanes-Oxley and Regulation Fair Disclosure (a 2000 SEC rule that requires public companies to disclose important information to all investors simultaneously), instead of building trust with investors by requiring transparency, may actually diminish the quality of the information companies distribute. The researchers suggest that in being forced to regularly publish information about executive compensation and financial controls, some firms may focus more on reporting the short-term visible numbers — stock price and market share, among others — than on exposing information about the long-term health of the company.

Another interesting finding concerns integrity. The authors argue that although it is important for executives to own up to mistakes, corporations must do more than that to build consumer trust. They point to two separate Coca-Cola product recalls. In Europe, Coke's sales increased after one large-scale recall, which the authors conclude was a result of the company's concerted efforts to convey to consumers the message that it cared about their well-being. In India, where it failed to communicate similar caring, sales decreased.

Bottom Line: Leaders must understand that stakeholders trust different people for different reasons, not all of which are obvious. To effectively manage a range of stakeholders, executives must exhibit empathy with key people, be honest about any failures or shortcomings, and work hard to make the best interests of stakeholders a priority.

Perceived Savings at Warehouse Clubs

Title: The Fees → Savings Link, or Purchasing Fifty Pounds of Pasta
Authors: Michael I. Norton (mnorton@hbs.edu) and Leonard Lee (ll2399@columbia.edu)
Publisher: Harvard Business School, Working Paper No. 08-029
Date Published: November 2007
Available Online:
http://hbswk.hbs.edu/item/5816.html

Discount membership warehouse shopping clubs, such as Costco and Sam's Club, are a $120 billion industry in the United States. The authors of this study set out to understand why shoppers at these clubs so often purchase an enormous amount of goods. So they created a mock membership club and drafted 80 individuals to join. Some members were told that club membership required a small fee, whereas the others were allowed to buy what they wanted without paying dues. The two groups were equally likely to make a purchase. However, those that had paid a fee spent significantly more than those who had not. The research suggests that consumers believe that if they pay for membership, the retail club must be offering significant discounts; hence, they tend to buy more than they normally would in order to maximize the perceived savings. The researchers calculated that the value per customer was three times higher among those who paid a membership fee.

Bottom Line: Rather than scaring cost-conscious consumers away, warehouse clubs' membership fees accomplish the opposite — that is, they convince consumers to buy more to take advantage of expected savings. Membership dues also communicate a sense of community between club and consumer. Understanding this, managers can create value, increase sales, and improve customer retention.

Fast-Tracking Talent

Title: Accelerated Development of Organizational Talent
Author: Konstantin Korotov (korotov@esmt.org)
Publisher: European School of Management and Technology (ESMT), Working Paper No. 07-004
Date Published: September 2007
Available Online:
www.esmt.org/fm/294/ESMT-07-004.pdf

The shortage of executive talent is a worsening problem. With many baby-boomer executives reaching retirement age and demand for highly skilled managers increasing because of global competition, firms are often desperate for top managers and willing to pay plenty to poach executives from competitors. These tactics are unsustainable and problematic, primarily because they drive up the cost of talent. As a result, organizations are now investing more in developing young, in-house talent with an eye to fast-tracking the best employees into key roles earlier in their careers.

This approach marks a fundamental shift in career development cycles, which traditionally allowed individuals to take their time learning the ins and outs of a job, experience formal training from superiors, and advance at a comfortable pace. Now it's typical for executives to maintain their current jobs while being groomed for future roles. As the author of this paper points out, fast-tracking comes with its own set of potential pitfalls. For example, accelerated promotion can elicit envy from colleagues, a feeling of isolation, and even guilt. Fast-tracked individuals are also prone to experiencing "impostor syndrome," a sinking feeling that they are about to be exposed as hapless and inexperienced. However, fast-tracked leaders, with the right approach (which includes being supported in their current roles and in gaining credibility with the staff as they take on management responsibilities), can overcome these obstacles and be extremely productive.

Bottom Line: Up-and-coming executives face new challenges as they are fast-tracked into leadership roles in a fraction of the time it took their predecessors to achieve the same status. To make the shift successfully, they must quickly adapt to new roles, develop new networks, and gain acceptance from incumbent leadership. +

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