

Discussion of "How Incumbent Firms Foster Expectations, Delay Launch But Still Dominate Markets for Next Generation Products" by Sumitro Banerjee and Miklos Sarvary

Market situation:

- Incumbent in market with increasing demand (diffusion)
- Potential entrant and incumbent can invest in next generation technology. Either one wins (low cost) or neither win.
- If entrant gets low cost/wins, launches new product immediately
- If incumbent gets low cost/wins, may delay launching of new product, as potential entrant does not enter.

Main points:

- Incumbent may want to delay launching new technology if it is not as profitable.
- The incumbent may invest more in the new technology than the potential as it has the added advantage of choosing the time to launch.

Interesting issues:

1. Launching a new technology when consumers are still learning about the previous technology:

Is it easier to learn the new technology if a consumer knows the previous technology?

Can a potential entrant of a new technology also benefit from consumers learning the previous technology?

Can a potential entrant enter the market even if it has high cost, and the incumbent does not launch the new technology?

What are the relative incentives of incumbent vs potential entrant to innovate?

2. What do consumers learn?

Learn product quality? (who does not know)

Learn how to use the product? (switching costs, expectations of new technology)

3. How do consumer learn?

Learn from own experiences?

Learn from word-of-mouth? How to make learning not immediate in each period if large number of consumers?