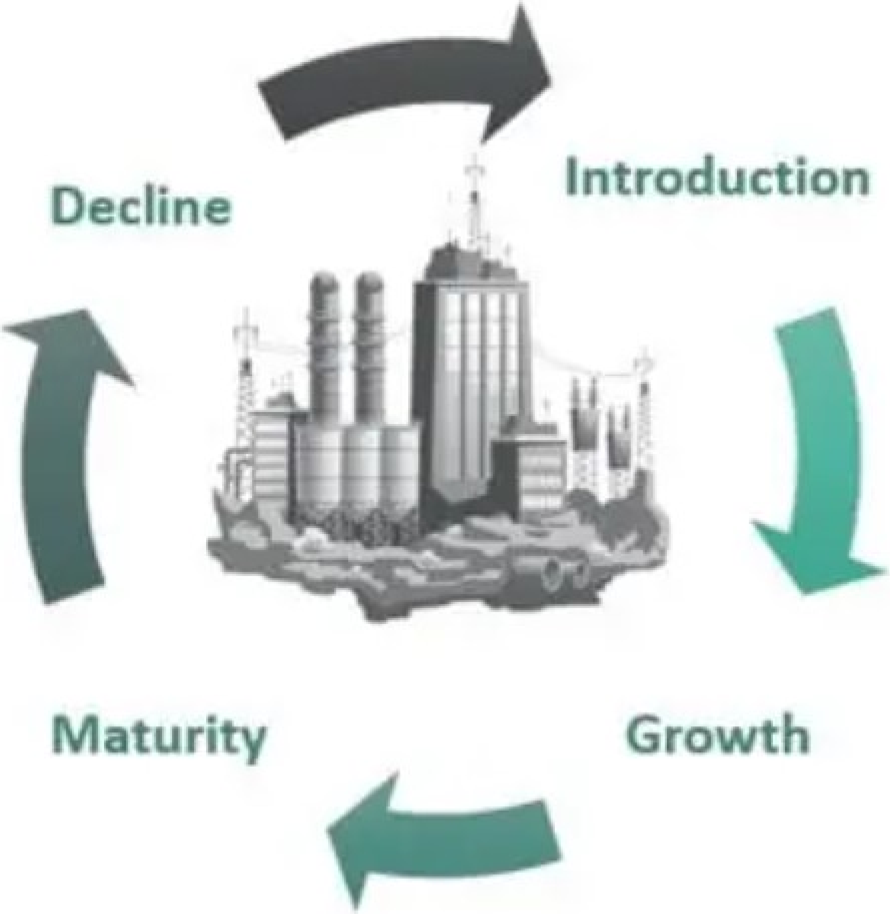
Industry Life Cycle

Unit-IV

What is Industry Life Cycle?

- *The industry life cycle refers to the life cycle portraying different stages an industry experiences during its life. The four common phases are introduction, growth, maturity, and decline.*
- Understanding the different stages of the life cycle help the businesses in making efficient decisions at each stage by identifying the opportunities and threat.
- Furthermore, it helps the businesses take entry, exit, or reentry strategies. It resembles an economic cycle, and similar to the stages of economic cycles, it is difficult to predict the duration of each stage.

Industry Life Cycle

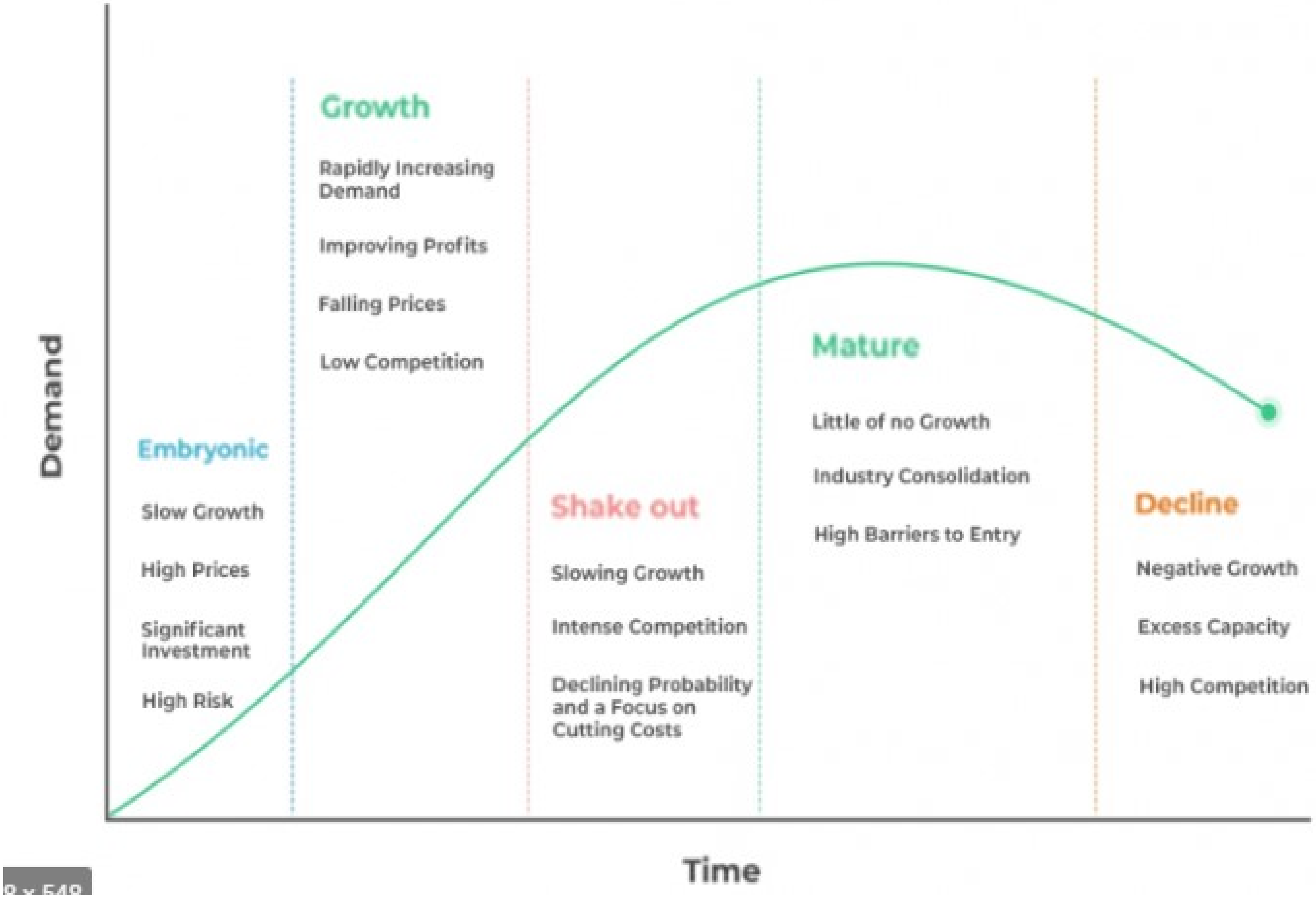


Introduction

Growth

Maturity

Decline


Demand
Time
Embryonic
Slow Growth
High Prices
Significant Investment
High Risk
Growth
Rapidly Increasing Demand
Improving Profits
Falling Prices
Low Competition
Shake out
Slowing Growth
Intense Competition
Declining Probability and a Focus on Cutting Costs
Mature
Little of no Growth
Industry Consolidation
High Barriers to Entry
Decline
Negative Growth
Excess Capacity
High Competition

Stages of Industry Life Cycle

- The industry life cycle model applies to most industries where businesses experience the four stages of the cycle. The entities enter the cycle when they develop an idea and then traverse the life cycle.
- Let’s look into the four stages of the life cycle.

Introduction

- The introduction is the starting phase of the life cycle where a new product, service, idea, or solution to a persistent problem is introduced in the market.
- Since it is new to the market, the level of demand, sales, and **revenue** is low, potential consumers are not aware of it, the product may not be a complete version, and requires wide-reaching advertisements.
- Most of the aspects of the new industry will be in uncertain categories like **target market** and business model to follow to fit in the industry.
  - Some of the defining factors that the industry exhibits at its introduction phases are as follows:
  - Few innovators are creating the industry
  - Competitors, **substitute products**, or **complementary goods** are less
  - The industry works to reach out to as many people as possible
  - Marketing and advertising are done aggressively to create awareness
  - Discounts offers and rewards are given to the product to attract customers

- The introduction, or startup, phase involves the development and early marketing of a new product or service.
- Innovators often create new businesses to enable the production and proliferation of the new offering.
- Information on the products and industry participants are often limited, so demand tends to be unclear.
- Consumers of the goods and services need to learn more about them, while the new providers are still developing and honing the offering.
- The industry tends to be highly fragmented in this stage. Participants tend to be unprofitable because expenses are incurred to develop and market the offering while revenues are still low.

Growth

- The second stage of the Industry life cycle is the growth phase. During the growth phase, consumers start to identify and show interest in the industry's offerings.
- The supply and demand increase. Companies grow organically; they gain and increase **market share**.
- A dynamic environment is not uncommon for the industries during the growth stage. Also, the atmosphere is filled with opportunities, proactiveness specifically in the strategy-making process, is crucial for growth. The companies in the industry now have appropriate business models and processes.
  - Spend of **research and development**
  - Producers try to optimize the existing offerings
  - Focus on **organic growth** & geographical growth
  - Complementary and supplementary goods emerge
  - Investment increases
  - Profit starts rising

- Consumers in the new industry have come to understand the value of the new offering, and demand grows rapidly.
- A handful of important players usually become apparent, and they compete to establish a share of the new market.
- Immediate profits usually are not a top priority as companies spend on research and development or marketing.
- Business processes are improved, and geographical expansion is common.
- Once the new product has demonstrated viability, larger companies in adjacent industries tend to enter the market through acquisitions or internal development.

Maturity

- The maturity phase follows the growth phase. The focus shifted from growth to increasing the **cash flow** and revenue through the appropriate strategies.
- They don’t have to spend on R&D or marketing, but competition is intense at this phase.
- To confront the competition, firms resort to strategies like **mergers and acquisitions**, **economies of scale**, cost reduction, competitive pricing, etc.
  - The industry is leading and enjoys maximum profit
  - **Rate of growth** slowdown representing the shakeout stage
  - Intense competitive pressure and resources are constrained
  - Dominant designs or improvisations occurs, adding more stress to compete
  - Competitively aggressive firms exhibit high performance

- The maturity phase begins with a shakeout period, during which growth slows, focus shifts toward expense reduction, and consolidation occurs.
- Some firms achieve economies of scale, hampering the sustainability of smaller competitors.
- As maturity is achieved, barriers to entry become higher, and the competitive landscape becomes more clear.
- Market share, cash flow, and profitability become the primary goals of the remaining companies now that growth is relatively less important.
- Price competition becomes much more relevant as product differentiation declines with consolidation.

Decline

- After experiencing growth and maturity, the industry moves to a declining phase.
- At this phase, many companies in the industry face difficulty surviving or prolonging the successful period due to no growth and intense competition. Therefore, they have to find strategies apt for the phase to sustain.
  - The weaker competitors are forced out of the market
  - May witness a steep fall in income
  - The negative impact of factors like market competition, substitutes, consumer behavior, consumer psychology signifies
  - The decline phase can be delayed using rebranding techniques, large-scale improvements, and attractive rewards

- The decline phase marks the end of an industry's ability to support growth.
- Obsolescence and evolving end markets negatively impact demand, leading to declining revenues.
- This creates margin pressure, forcing weaker competitors out of the industry.
- Further consolidation is common as participants seek synergies and further gains from scale.
- Decline often signals the end of viability for the incumbent business model, pushing industry participants into adjacent markets.
- The decline phase can be delayed with large-scale product improvements or repurposing, but these tend to prolong the same process.

Industry life cycle analysis

- It is the process of evaluating the position of a company in the life cycle to understand its growth.
- The management and other stakeholders usually make decisions based on the company’s financial reports.
- At the same time, this analysis helps management to make the right strategic decisions based on the current stages where the company is in by understanding the industry.

Conclusion

- The industry life cycle represents the different stages in the lifespan of an industry, indicating the emergence, rise, and decline in popularity.
- There are primarily four stages: introduction, growth, maturity, and decline.
- The introduction stage indicates the starting stage in the life cycle where the offering is emerging and new to customers. It is followed by the growth and maturity stage manifesting profit increase and maximization. Finally, the decline stage showcase a decrease or negative growth.
- Analysis and understanding of the different stages help in the strategic decision-making process.