Strategic
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Managing Lock-In

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Basic strategy for buyers

- bargain for compensation at beginning
- minimize your switching costs in cycle

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Bargain before you are locked in

- emphasize your costs
- convince suppliers your are good customer
- tell them you can influence other purchasers
- convince them you will have high switching costs
- beware partial contracts

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Minimize switching costs

- second source
- pick open system if you can
- actually switch
  – certain parts of business
  – certain geographic areas
- watch out for creeping lock-in
- keep data under your control!

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Basic strategy for sellers

- Invest
  – to build installed base
- Entrench
  – increase lock-in
- Leverage
  – sell complementary products

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Invest

- Iomega
- Look at today's customers as assets
  – recognize customer profiles will change
- Revenue from locked-in customers is return to investment
  – Kodak

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Invest, cont.

- Structure of deal
  - discount to meet budget realities
  - may have partly open product
    - e.g., RTF and DOC files

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Value of installed base

- high market share doesn't mean high switching costs
  - Lotus, Navigator, Cisco
- low market share can still mean large lock-in
  - Computer Associates
- compare share of shipments to installed based

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Which buyers are valuable?

- think of future revenue streams
- more streams are better
- growing demand is better
- influential buyers
  - additional cash generated by sale to particular consumer
  - BBS operators

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Influential buyers, cont

- buyers with high switch costs
- buyer side: convince the seller you are influential
  - may already be locked in
  - buyer has incentive to exaggerate
- watch out for churn (phone calls, ISPs)

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Multi-player strategies

- Frequent flyer miles
- subsidize first purchaser, to get rest locked in
- marketing to doctors/hospitals

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Entrenchment

- design product for lockin
- provide information services to customers
- loyalty programs
  - cumulative volume discounts
  - rely on infotech
  - loyalty programs will become more widespread
  - convert conventional markets to lock-in markets

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Leverage installed base

- sell complementary products
- razors and blades, printers and ink
- Visa/Mastercard v American Express
- Netscape: integrated package of complements

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Sell access to installed base

- AOL selling eyeballs
- Reuters/Bloomberg
- Supermarkets

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Differential pricing

- installed base
- potential customers
- offer discounts to attract new customers
- "burden of locked-in customers"
- versioning

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Search costs

- make yourself easy to find, rivals hard to find
- (unless you are the cost leader)

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First mover advantage

- stagger termination dates
- new versions and upgrades
- "vaporware"

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Cycle length

- extend contracts before current one expire
- keep your competitors guessing about timing

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Lessons

- Buyers
  - bargain hard at outset
  - second source and open systems
  - look ahead to product choice
- Sellers
  - invest in installed base
  - cultivate influential buyers
  - design for locking; sell complements and access

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