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Thorsten Grohsjean and Tobias Kretschmer: “Product Line Extension in Hypercompetitive Environments - Evidence From the US Video Game Industry”



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Abstract:

We study firms decisions to launch products in hypercompetitive, fragmented environments using a sample of over 3400 games introduced in the US for the sixth generation of video game consoles. We are especially interested in the role of a firm s competitive position in different market niches on the propensity to diversify or self-cannibalize one s own successful products. We find that firms are generally reluctant to cannibalize their existing successes, but that a more successful product leads to increased launches in weaker niches. Further, we find strong support for the prediction made by hypercompetitive theory that firms will try to erode their competitors strengths by attacking specifically market niches in which there is a strong direct competitor and in attacking strong rivals in multiple niches. We believe that this pattern can help explain the volatile and fragmented nature in the video games industry.