

First Mover Advantage

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Abstract

This article surveys the theoretical and empirical literature on mechanisms that confer advantages and disadvantages on first-mover firms. Major conceptual issues are addressed, and recommendations are given for future research. Managerial implications are also discussed.

First Mover-A Company which is first to establish itself in a given market or industry with its product or service.

The first-mover advantage refers to any advantage which is gained by a company that first launches a product or service in the market place. The first-mover advantage helps a company to establish strong brand recognition and product/service loyalty before other competitors enter in the market.

We can say that it refers to a large company that moves into a market. For example, Amazon was not the first company to sell books online. However, it was the first company to achieve significant scale in that line of business.

First Mover Advantage Definition

“First Mover advantage is the competitive advantage gained by a particular company compared to its competitors while launching the products first.”

KEY POINTS

- A first mover is a company that gains a competitive advantage by being the first to bring a new product or service to the market.
- First movers typically establish strong brand recognition and customer loyalty.
- The advantages of first movers include time to develop economies of scale—cost-efficient ways of producing or delivering a product.
- The disadvantages of first movers include the risk of products being copied or improved upon by the competition.
- Amazon and eBay are examples of companies that enjoy first-mover status.

Advantages of Being a First Mover

Extensive Supplier Options

When any organization is the first mover in the marketplace with a new product or service, your company may have an extensive list of suppliers to work with. You can negotiate with the best manufacturers and other supply chain providers to ensure a cost-effective model that helps you to provide customers with a high quality product.

Defining industry standards

As the first in the market, your product, and the manufacturing practices you establish, can set the industry norms as other businesses enter the marketplace. Rather than relying on standards set by another company or working within the pre-established market, your organization can define the manufacturing and marketing practices for your segment itself.

Developing retailer relationships

You can build excellent relationships with a wide range of retailers as the only company in the market with your product. The more popular the product is, the more stores may want to work with you and feature your product on their shelves. When Competitors enter the market, you likely already have a solid position within the retail framework.

Increased brand recognition

Customers can quickly learn to associate your brand with your product since it is the only one on the market. Brand Recognition often leads to increased sales and the development of long-term customer relationships. When other companies introduce similar products, customers may not realize they're the same or prefer to continue purchasing the original.

Establishing Economies of scale

Depending on the industry, the first few months of production can be costly until your organization has found the most efficient and economical way to manufacture your product and bring it to market. Being the first in the marketplace gives you time to mold your micro-economy and establish a cost-effective system before any competitors enter the sector.

Defining Customer Loyalty

Some industries or products produce loyal customers because of the initial investment in the product. For example, if you sell computer software, it's unlikely a customer switches to a competitor after installing your product because the time and expense of migrating digital systems are not worth any potential cost savings. Being the first to market increases this type of necessity-driven customer loyalty.

Technology leadership

First movers can make their technology/product/services harder for later entrants to replicate. For example, if the first mover can reduce the costs of producing a product (an "experience" curve effect), the first mover can establish an absolute cost advantage. In addition, applying for patents can protect and establish a first-mover advantage.

Control of resources

The second benefit is the ability to control strategic and/or scarce resources. For example, Wal-Mart was able to locate its stores in small towns and prevent others from entering the market.

Buyer switching costs

The third benefit that first movers may enjoy is buyer switching costs. If the first business is able to establish itself firmly, it may be inconvenient for consumers to switch to a new brand later.

Disadvantages of Being a First Mover

Being a first-mover is not without its risks, however. Consider these potential disadvantages before rushing to market:

Superior competition

The biggest and most prescient disadvantage of being a first-mover is the potential advantage it offers to your competitors. By creating a high-quality product priced correctly for your customer base, you can avoid losing consumers to competition.

Rushing design

In an effort to be the very first one to sell your new product to consumers, your company might rush the design and testing stage of product development, leading to a product that's not as optimal as slower-moving competitors' products might be. Focusing on proper production and creating a high-quality product can help you avoid this potential drawback.

Misreading pain points

Some products that companies assume address customer pain points turn out to be low sellers. Investing in proper and thorough research can help you avoid this potential disadvantage.

Education costs

As the first company to introduce a new product, you likely spend a substantial amount of time and money educating your customers about the product, its uses and its benefits. Using effective marketing and creating an intuitive product can help to lower education costs.

How Does First Mover Advantage Work?

In business, first-mover advantage is a theory that the first company to enter an industry captures a disproportionate market share relative to later entrants.

Entering the market as first movers can be *risky and rewarding* since first movers must frequently make decisions with little information about the needs of consumers.

A first-mover often establishes an entirely new industry. In contrast, following competitors offer different products or services within *an existing industry*.

A first mover in an industry often dictates how future competitors will enter the market.

For example, when *Netflix* first entered the DVD-by-mail business, it adopted a business model that included postage-paid return envelopes, late fees, and limited viewing time per movie.

Competitors were forced to adopt these rules to compete with Netflix. This way, first movers can set industry standards that reduce immediate competition from imitators.

Where It Works and Where It Doesn't

First mover advantage works in the following cases:

1. The first mover advantage works in cases where there is a cost advantage in being the first mover. This can be due to *fixed costs*, *economies of scale*, and more.
2. When the firm establishes a brand that is difficult for others to imitate immediately and difficult for customers to change in a short time frame, the first mover advantage works perfectly.
3. When the firm establishes a marketplace, consider *eBay* or *Amazon*; the first mover advantage wins.
4. The case of a patent, copyright, or trade secret gives the firm a temporary advantage.
5. When network effects are involved in the business model, the first mover advantage works.

First mover advantage doesn't work in the following cases:

1. The first mover advantage doesn't work when the market is highly price-sensitive and has low switching costs.
2. In cases where customer experience is critical, consider *Apple*; the first-mover advantage doesn't work. Yet, it has created its niche behind its brand and customer experience.

First Mover Vs. Late Mover

The first mover is the first company or person to enter a specific market with the product now being sold.

The first mover does not necessarily need to be the one who invented the product. Still, it must be the first on the marketplace to sell or distribute that version of the product/service.

On the other hand, a late mover enters a market after the first mover has had time to establish market share.

Late movers can sometimes successfully enter the market by offering a product that is an improved version of the original or targeting a different market segment with their offer.

First movers have incurred all the upfront expenses and efforts of starting a new industry. Late movers can be successful without bearing these initial costs.

First-Mover Advantage Examples

1. Coca-Cola

While Coke wasn't the first soda to hit the market, it was the biggest. Vernors and Dr. Pepper actually debuted earlier, but a first-mover advantage doesn't necessarily mean the first company to launch has the advantage. Rather, it refers to the first company to capture large market share.

The first soda syrups started showing up around 1881. But when Coca-Cola debuted in 1886, they immediately became the consumer favorite. By the time Pepsi launched, in 1898, Coke was already selling a million gallons per year.

Pepsi went bankrupt twice and rebranded in the 1950s to keep up with their rival. And in the 1960s, they merged with Frito Lay giving Pepsi a successful market share in snack foods, a boost in stocks, and the lifeline they needed to compete. But Coke's biggest beverage brands have reached more than \$1 billion in sales -- something Pepsi has never quite been able to top.

2. Kellogg's

In 1863, James Caleb Jackson created a graham flour dough breakfast cereal called granula. He was first to market, but never captured much consumer attention. Surgeon John Harvey Kellogg made a similar version, called granola, shortly after. But it wasn't until he and his younger brother debuted Corn Flakes, added sugar, and began mass-marketing that their brand really started to take off and they captured the first-mover advantage.

While Post and Quaker Oats created similar cereals, none of them could catch up to the brand affinity and popularity of Kellogg's. After WWII, Frosted Flakes, Tony the Tiger, and television advertising further cemented their status as the favorite cereal brand.

Their 2000 acquisition of Kashi allowed Kellogg's to evolve with the natural and organic food boom -- key to maintaining their popularity as a brand.

3. Apple

When Apple unveiled the first iPhone in 2007, they changed the mobile phone landscape for the first time -- and they changed it for good. In 2008, HTC became the first manufacturer to make Android devices and other brands followed.

While Apple's iOS and Google's Android operating systems still have closely aligned loyalty rates (a recent Consumer Intelligence Research Partners report has Apple's iOS loyalty rate topping out at 88% and Android's at 91%) Android loses more users every year (112 million vs. Apple's 30 million). This allows Apple to maintain their status as the original and most preferred smartphone on the market today.

4. Amazon

Remember when Amazon only sold books? They became the first major online bookseller and a force longtime brick-and-mortar stalwarts like Barnes & Noble and Borders couldn't keep up with.

Borders shuttered in 2011 and Barnes & Noble -- Where Amazon's Jeff Bezos used to have company meetings -- has consistently seen falling shares, revenue, layoffs, and store closures.

Ironically, Amazon has even encroached on Barnes & Noble's physical store stronghold over the past few years. Fast shipping, an increasing number of Prime members, and low prices have powered Amazon to seemingly unbeatable market share.

5. Uber

By the time it burst onto the scene in 2009, Uber was not the first ridesharing company, but it was the largest and most successful, beating out pioneer Sidecar for eventual market domination.

Debuting in 2012, Lyft became Uber's most ferocious competitor. But even a damaging year of scandal in 2016 -- which saw them lose their founder and CEO and weather the "Delete Uber" campaign -- didn't dilute Uber's market share too much. USA Today reports 48 million people will ride Uber in 2018 to Lyft's 29.9 million riders.

6. Kindle

Amazon beat Barnes & Noble to the punch again with their 2007 e-reader, the Kindle. Barnes & Noble answered with the Nook in 2007, but it was too late. Nook peaked as a \$933 million per year business, but, in 2016, they reported earnings of just \$146 million.

Two years of Kindle brand loyalty managed to overcome an initial market share grab by Barnes & Noble, which has lost \$1.3 billion on Nook in the last six years.

7. eBay

Founded in 1995, eBay managed to survive the dot-com bubble and do the unthinkable -- withstand Amazon's online auction spinoff, "Amazon Auction."

Acquisitions of companies including iBazar and PayPal, and the 2009 sale of Skype, have helped it maintain market relevancy and dominance. It's still the world's largest online auction site, with 175 million active users in 2018.

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