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ABSTRACT

We have all heard about first mover advantage and how important it is, especially in the so-called "New Economy" and with e-related businesses. The story goes, " If we are first in the market place, we can gain market recognition, market share early and the lion' s share of the market' s money. We can become entrenched in the market so that our lead will be insurmountable and then we can ride the wave of momentum and relax." First mover advantage is a bit more complicated than that. In fact, being first may be a disadvantage. Ultimately, relying on being first mover as a(n) (Internet) strategy and/or competitive advantage involves a great amount of risk.

INTRODUCTION

***Henry Ford once said, "I believe, that the best strategy is to be the first person to be second."* (Tom Peters)** [1]

***…(the first mover is)usually the (company) that's going to win.* (Tim Draper, co-founder, Draper Fisher Jurvetson)**[2]

***The first mover advantage is largely illusionary.* (Steven Jurvetson, co-founder, Draper Fisher Jurvetson, six months later)**[3]

We have all heard about first mover advantage and how important it is, especially in the so-called "New Economy" and with e-related businesses. The story goes, " If we are first in the market place, we can gain market recognition, market share early and the lion' s share of the market' s money. We can become entrenched in the market so that our lead will be insurmountable and then we can ride the wave of momentum and relax." Furthermore, if you stated that front of a group of venture capitalists, the meeting would end early with you leaving with shopping bags full of money. After the dotcom crash times changed. But what about first mover advantage, surely it is still true, isn' t? Maybe yes, maybe no. First mover advantage is a bit more complicated than that. In fact, being first may be a disadvantage. Ultimately, relying on being first mover as a(n) (Internet) strategy and/or competitive advantage involves a great amount of risk.

FIRST MOVER ADVANTAGE

***First-mover advantage is a head start. Almost anyone would be crazy not to have a head start.* (Sara Zeilstra)**[4]

Management guru Tom Peters linked the first mover concept back 100 year or more to founding of the oil industry. The Rockefellerian idea of locking up the pipelines first to control the flow of oil and thereby locking users and dramatically reducing the chance of secondary market entry [7]. The strategy was perfect, perhaps too perfect, resulting in a near monopoly situation and the ultimate break up of Standard Oil.

For the term *first mover advantage*, we do not have to go back as far. The term originated as a result of academic market research looking at the relationship between the timing of market entry and success. The results showed that there was certain key advantages that could accrue a first mover:

1. Transform market and/or industry rules
2. Help to establish industry standards and thereby lock in your position
3. Build better relationships with customer, distributors, and supplier in a manner than might be difficult to replicate
4. Gain network effect benefits
5. Benefit by being ahead on the learning curve
6. Earn super normal profit for time before regulators are alerted and change (limit) rules and options

But the idea seemed to fall out of (academic) favor, when the generalizability of the research was questioned. Apparently the sample was limited to companies who had made substantial capital infrastructure investments serving a well defined market [4].

However, the concept returned with a vengeance during the Internet/high technology boom of the 1990' s. Internet related businesses were attracted to this concept convinced that it would give them the competitive advantage they needed. They were especially attracted to the expected externalities, especially network effects [3]. Network effects can be "defined as a change in the benefit, or surplus, that an agent derives from a good when the number of other agents consuming the same kind of good changes. As fax machines increase in popularity, for example, your fax machine becomes increasingly valuable since you will have greater use for it." [6]. To many this seemed the perfect match for there e-Business. Unfortunately, for most the advantages were illusionary, buy why?

FIRST MOVER ADVANTAGE PART II

First, we can learn by examining the success of the first mover. Despite the limited external reliability based on the original sample, there are countless stories, myths, and legends about the benefits and success of being there first. However, most of this *evidence* is anecdotal as best and just not true at least. For example, Amazon has its market lead because it was a first mover. The Computer Literacy Store (now Fatbrain.com), a bookseller, registered for business in 1991[1]. Even Books.com was online selling books at least a year before Amazon. Hotmail was not first. Ebay was not first either. Netscape wasn' t first. The Palm pilot was not first. Excel was not first; Lotus 1-2-3, was not even first. Do you own a laptop computer? Remember Osborne portable computer or Gavilan?

[1] Maney, K. First mover advantage: No longer an advantage. www.bizreport.com, 2001, July 18.

[2] Maney, K. First mover advantage: No longer an advantage. www.bizreport.com, 2001 July 18.

[3] Freedman, D. Last guys finish first. *Business 2.0*, 2000, May.

[4] Mannes, G. 1999. First-mover advantage: What' s it really worth. www.thestreet.com, 2000, Jan.12.

It is an interesting to observe what people believe to be true versus what the facts really are. As the first movers and market pioneers lose market share and fade away, people begin to forget that they ever existed. As a result there is a vacuum created. It is those *other* firms who are prepared to step into that vacuum. Accordingly, people then think that the *current* market leader must have been the first mover. And all the *benefits* of being first mover accrue to that firm. These benefits include trust, admiration, market power etc., all of course help to reinforce the market leaders position. " History imposes first mover advantage honors, " noted venture capitalist Roger McNamee [10]. Leading electronic games producer, Electronic Arts (EA), would probably be the answer of most peoples' , who *entered the market first* question. However, they would wrong. EA was not second either or third or five or twenty-fifth. EA was the 41st game software company, not to enter the market, but to be funded!

SECOND MOVER ADVANTAGE

In fact, being first seldom proves to be a sustainable advantage and usually proves to be a liability. The pattern of the second (or third or fourth) market entrant's prevailing over the pioneers has been demonstrated throughout the entire history of technological and economic change. When has Microsoft ever been first at anything? It is more often the case that Microsoft is last or nearly last to enter a new market or utilize a new technology. However, who usually gains the biggest market share? While there are certainly additional reasons for that, being late in certain markets is a distinct advantage. Even many gamer theorists recognize that there may be an advantage to *not* starting first or at least conditions where it may not be appropriate [4].

First, there is a huge risk entailed in being first in the market. Given that the market is untested, there may not be a market at all. So as a *second mover*[5], you have the benefit of hindsight. You can jump into the market with both feet, if and when, it has been proven to exist. First movers have very steep learning curves when they enter new markets. This is perfectly understandable and expected; however, it still happens. So as a second mover, you not only get to see the problems, pitfalls, and potholes, you get to learn from them and to develop strategies to overcome them. Kirzner [5] would say that this first mover risk was strictly an information problem. More specifically, through, market participation; individuals see others' actual decisions gaining knowledge that causes them to revise their plans. In Kirzner's view opportunities persist because of the inability of current market participants to learn from their experience. In the market process theory learning plays an important role, the market actors are suppose to learn from their participation and make adjustment in their own self-interest. So the risk of being first is that by being first you rarely have enough market information, so you cannot meet the customers' needs properly or fully. As a result, these (temporarily) unsatisfied, leaving the market wide open for other that can learn from your previous market experience. We can look to what is happening in Europe with countless *knock-off* business/sites. These e-Businesses learn/copy the business models and even the web design of US businesses and import them to their regional markets. They learn from the experience and mistakes of the first mover and therefore reduce risk and reduce their time to market.

Second, first movers are often too early, too ahead of the customers. As a result, many first movers financially fail before the market really opens up. As a second mover, you are there to pick up the pieces just at the perfect time when the market really opens up and the first mover has gone belly up.

Third, a bad business is a bad business, whether you enter first, second or last. Just as Jurvetson said, "Just because it's a first mover doesn't mean any given business is a good one" [7]. The lure of first move advantage and network effects have blindly many entrepreneurs, leading them to discount, forget or ignore basic business economic and management fundamentals.

Finally, if there are first mover advantages they may only be obtainable in certain types of industries. As mentioned previous, the original conceptualization of first mover advantages came as a result for studying industries with massive investments in infrastructure and well defined market like railroad, phone, maybe hotel, etc. It may not be generally applicable across many industries. It many not apply to many Internet, electronic, high technology businesses. It may be the case that in complex industries and industries dominated by high levels of uncertain with respect cost and technology [4]. A wait-see-learn strategy may be more applicable. Furthermore, there may not be any first mover advantage in industries with low barriers to entry. A wait-see-learn strategy may be more applicable there as well.

Fast Followers

Fast follower is a new term that seems to be gaining some traction as an alternative to second mover [4]. This term, obviously, emphasize the speed element as well the following. In this current business environment speed has become more important and the speed of company's response likewise important. But it does raise and interesting issue. How fast should you follow? How quickly should you be a second mover? From an information perspective, the business would presumably learn more, if it waited longer, but when has it learned enough? It certainly cannot wait to try to learn everything. Perfect information does not exist; therefore, the business will have to act without complete information. But when? This terminology reminds one of the importance of *time to adjust* as opposed to time to market [2].

When is Being First Better Than Second?

There are situations where being first mover can be important and sustainable. The first three situations revolve around partially overlapping issues: proprietary, substitutability/industry standard and switching costs. First, if you propriety technology and/or enforceable

[5] *Second mover* is a generic term that actually represents market entry *after* the first market entry.

patent protection, being first can be a significant advantage. Second, if you have can create an industry standard, you may be able to gain and maintain a dominant position despite the presence of better solutions. Third, if it is too expensive in money, time, and/or both for your customers to switch to a better solution (e.g., your competitors), being first in the market and locking up customers is a huge advantage. With open standards, open technology, etc. the prospects of many e-Business or Internet related businesses being able to exploit any of these situations are low. Many of the business failures that attempted use a first mover strategy as their competitive advantage, did not have any of the winning conditions.

Two additional, conditions are secrecy and upfront investment. Firms that able to entry the market before much is known about their product or service may gain some first mover advantages, because they may catch the customer surprised and may catch the competitors off guard. Furthermore, those products that require a significant capital outlay upfront (e.g., railroads, pipelines, etc.) may also gain some advantages, if they are first to market.

An overriding principle here that is often missed is value. The business must deliver better value to their customers, better value than future competitors and better value than current alternative products [9]. Another point that is also overlooked is sustainable value (i.e., innovation). Being first may certainly give you advantages (under certain conditions) but nowhere does it say that that situation is permanent. The company must continual improve their product to continue to meet and exceed market expectations. That occasionally requires self – cannibalization (Intel, Sony, Nokia, etc.)

Successful firms are becoming increasingly more comfortable self-cannibalization. Intel is a classic example, but not the only one. Intel, the mega-chip maker, has approximately 85 % of the market for personal computer chips, a virtually monopoly. So why does Intel come out with the 286, the 386, the 486, the Pentium I, II, III? And in the news today, Intel announced that they were lowering the price on their just recently released Pentium IV by 40%. Why?? There are many reason why Intel is so dominate in the chip arena, but one is reason is that it is an extremely paranoid organization, as their former CEO often said. They live by the credo that, "If we do not cannibalize our sales and our own products, one of our competitors surely will." Therefore, Intel continues to innovate at a rapid pace. This makes it very difficult for competitors to target them. It also helps the consumer by having increasingly better and faster chips at lower prices (if they are willing to purchase a short while after initial introduction).

CONCLUSION

Ultimately, risk and reward usually go together. If you are willing to take a larger business risk, the corresponding reward you be large enough to compensate you for that risk. Being the first mover usually entails a large risk, but given some of the problems associated with being a first mover, you should consider it very carefully. Your current competitors are watching you closely. Your possible future competitors are watching you closely. Every mistake you make is a lesson for someone. Why shouldn't you watch and learn from the first movers in your industry and enter those markets with all of the knowledge and experience behind you? Being a first mover can be a great position to be in; however, it almost always is not. Under certain conditions being first is an advantage, but a qualified advantage. Meaning that it is an advantage like size, money, marketing power, etc. They can be valuable but require reinvestment and constant attention or they whither away just like anything else. And with e-Businesses and Internet businesses where business models and even underlying technology is relatively transparent, they may die even faster.

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