15.835: Entrepreneurial Marketing

Session 2: Competitive Advantage/ The First Mover Advantage

Oh! Pioneers!

- Product pioneer = first firm to develop a working model or sample in a new product category
- Market pioneer = first firm to sell in a new product category
  - The first product to enter the market

Pioneer Advantage/ The First Mover Advantage

- Pioneering new markets is expensive and risky, but potentially very rewarding

  because market pioneers enjoy advantages based on early market entry.

- Pioneers are more likely to:
  - Have high market share,
  - Survive longer
  - Be market leaders in their product category

Example: Photocopier

Inventor: Chester F. Carlson (1906-1958), a patent attorney

It was his job to prepare the paperwork which was submitted to the patent office to register his company's inventions and ideas. However, the patent office required multiple copies which he had to duplicate by hand.

Redrawing the copies took hours. What's more, Carlson was nearsighted and had arthritis, which made his job even more difficult. He knew there had to be a better way.

He worked in the kitchen of his home in 1930's.

[the first photocopy]

Voila! dry-copy! Electrostatics!

Example: Photocopier (cont'd)

- However, his fight wasn't over. It took him another 6 years to find a business interested in his technology. He approached companies like IBM, GE and RCA, but was turned away.
- Finally, he was able to interest the Battelle Development Corporation in his invention in 1944.
- In 1947, the Haloid Company was founded
- Later, the Haloid was renamed Xerox.
- In 1959, Xerox introduced an office copier, the 914, which became the basis for the current multibillion-dollar industry.

Example : The First Spreadsheet

- Targeted platform: Apple
- In 1982, Lotus introduced 1-2-3 for IBM PC.
- No patent protection
  - In Sep.. 1983, Software Arts was sued by VisiCalc's publishers, VisiCorp (originally named Personal Software). Software Arts. Software Arts countersued.
  - In the summer of 1984, a settlement was reached. VisiCorp was eventually sold off to various players. Software Arts' assets were sold to Lotus Development Corporation, the creators and publishers of the 1-2-3 spreadsheet, in 1985.
  - In 1981, the US supreme court opened the floodgates of software patents. Unfortunately for the players in the VisiCalc story, it came too late to help them patent the spreadsheet.
  - Lotus sued the makers of products; It claimed VisiCalc was too similar to 1-2-3; it used copyright, not patent, protection.

Evidences Against the Pioneer Advantage

- PIMS data suffer from survival bias and self-reports bias; Most pioneers are market leaders for only 5 to 10 years; Early market leaders have a higher M/S, higher success rate, and stronger market leadership than pioneers (Golder and Tellis 1993)
- First entrants survived longer than second entrants only in successful market. But, in all markets second entrants survived as long as first entrants (Glazer 1985; newspaper industry in Iowa from 1836 to 1976)
- Lower M/S for first and second entrants; higher M/S for third and fourth entrants (Lilien and Yoon 1990)
- …….(a lot)

Sources of Pioneer Advantage

- Product-based Entry-Barriers
  - Economy of scale and learning can lead to lower costs for pioneers.
  - Technological leadership can enable pioneers to consistently have better products than competitors.
  - Cornering scare assets with long-term agreements can keep them from late entrants.

Sources of Pioneer Advantage (cont'd)

- Consumer-based Entry Barriers
  - When consumers successfully use the first product, they will continue to favor it because they know it works.
  - The pioneer influences how consumers evaluate attributes and may become the standard for the product category.
  - The pioneer can carve out the most profitable segment
  - The pioneer may be able to lock-in consumers by creating high switching costs.

Forces Against the Pioneer Advantage

- Free-rider effect: competitors introduces the same technology with lower costs.
- Technological discontinuities: late entrant uses superior technology to produce a better product before the pioneer.
- Shifts in consumers' tastes: the late entrants adopt new positioning before pioneers.
- Incumbent inertia: pioneer is deterred from making the investments necessary to remain a market leader.
- Identification of ideal points: best product may become apparent only after the first product is widely introduced.

Question

Does there truly exist
the first mover advantage?

Answer

- It depends.
- Pioneering new markets is expensive and risky, but also potentially very rewarding.
- If pioneers have advantages in
  - Supplies
  - Costs
  - Information
  - Product quality
  - Product line breath
  - Distribution,

  Firms may benefit from early entry.

Answer (cont'd)

- If late entrants can leapfrog pioneers with:
  - Superior technology
  - Better product quality
  - Better customer service
  - Better brand image,

  Firms could be better off entering late.

The logic of success is not to be first to enter the market, but to strive for market leadership by scanning opportunities, building on strengths, and committing resources to customers effectively.