What is the First Mover Advantage?

The first mover advantage refers to an advantage gained by a company that first introduces a product or service to the market. The first mover advantage allows a company to establish strong brand recognition and product/service loyalty before other entrants.

It is important to note that the first mover advantage only 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.

Advantages of Being a First Mover

There are several advantages to being the first business to execute a strategy.

Companies that are first movers can often:

- Establish their product as the industry standard
- Be able to tap into consumers first and make a strong impression, which can lead to brand recognition and brand loyalty.
- May be able to control resources, such as basing themselves in a strategic location, establishing a premium contract with key suppliers, or hiring talented employees.

- Can gain an advantage when there is a high switching cost for consumers to switch to later entrants.

Benefits of Being a First Mover

Professors Marvin Lieberman and David Montgomery, in their 1988 award-winning paper, First-Mover (Dis)Advantages: Retrospective and Link with Resource-Based View, list three main benefits of being a first mover:

1. 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.

2. Control of resources

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

3. Buyer-switching costs

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

Disadvantages of Being a First Mover

Being the first business in an industry may not always guarantee an advantage.

- The first mover may invest heavily in persuading consumers to try a new product. Later entrants would benefit from these informed buyers and would not need to spend that much on educating consumers.
- Later entrants can avoid mistakes made by the first mover.
- If the first mover is unable to capture consumers with their products, later entrants can take advantage of it.
- Later entrants can reverse-engineer new products and make them better or cheaper.

- Later entrants can identify areas of improvement by the first mover and take advantage of it.

Learn more in CFI’s Corporate Strategy Course.

Examples of Successful Companies That Were Not First Movers

Listed below are 3 companies that were not first movers in their respective markets, but have now grown to become some of the biggest companies in the world:

1. Google

Before Google, there were search engines such as Yahoo and Infoseek. However, Google was able to customize their search engine to perform more effectively and efficiently. They now control over 65% of the search activity.

2. Southwest Airlines

Southwest Airlines entered the airline industry as a late entrant but was able to expand and become the second largest airline in the world in terms of the total number of passengers. The company focused on an area that other airlines were not looking at – short haul flights.

3. Starbucks

There were a lot of places to buy coffee before the establishment of Starbucks. However, Starbucks was able to establish a strong brand equity by placing an emphasis on making Starbucks the go-to place when you’re not home or at the office.