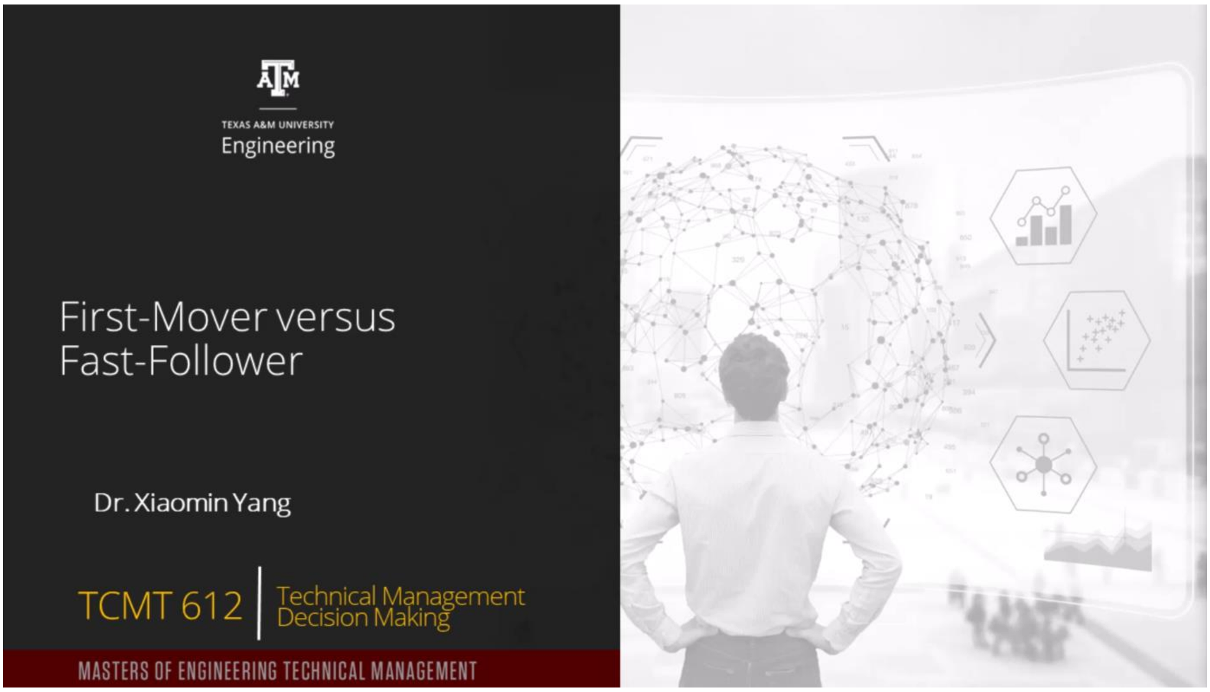
M5L17. First-Mover versus Fast-Follower

Slide #1



First-mover versus fast-followers, which timing strategy is better?

The decision depends on the industry dynamics and a company's capability.

Slide #2

Being first in the market does not necessarily guarantee gaining durable competitive advantage.

Researchers at the University of Southern California analyzed 500 brands in 50 product categories in 1993.

Their studies revealed what happened to first-movers and fast-followers

Although the study was conducted more than 30 years ago, its observation is still applicable to our decision-making in these days.

Slide #3

First Mover	First to sell product	11% remained market leaders in the long run	First mover advantage lasted only 5-10 years	47% failure rate (ended sales in the categories)
Fast Follower	Entered early, but not first	50% became market leaders	Fast followers outperformed first movers in 5 years	8% failure rate

Their results show that only 11% of the first movers remained market leaders in the long run, which means about 10 years.

The first mover advantage lasted only 5 to 10 years.

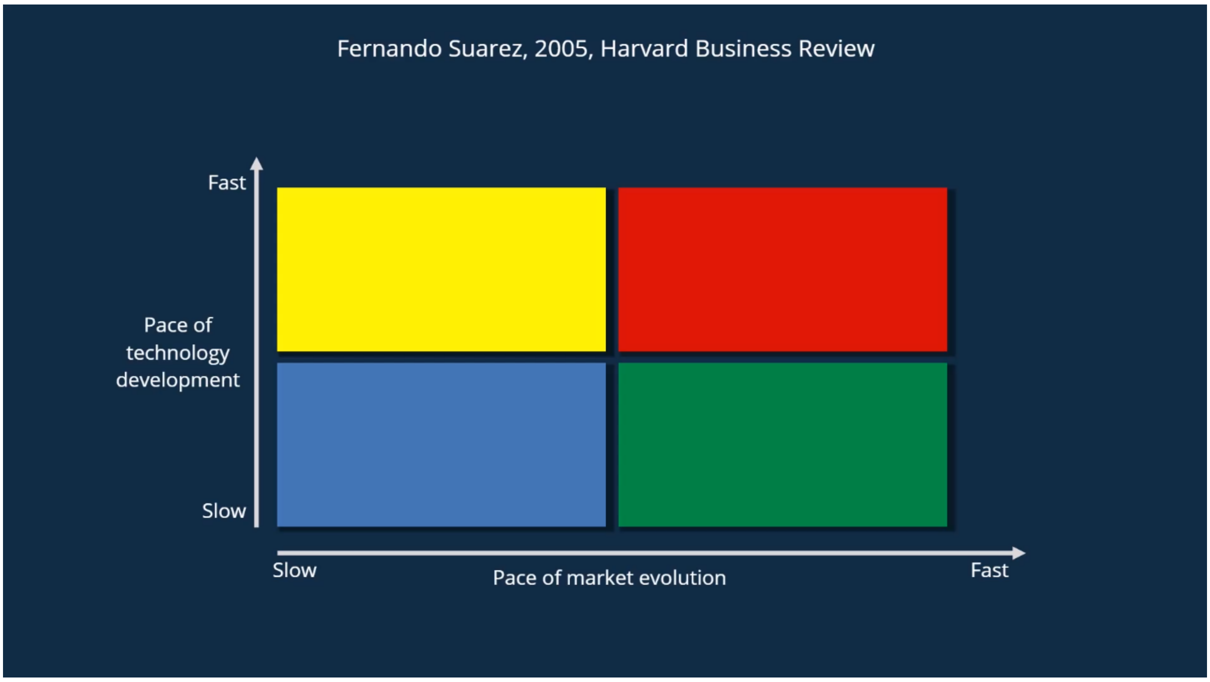
Almost half of the market pioneers failed and ended the sales of the product that they created and introduced to the market.

However, 50% of fast followers became market leaders and outperformed their first movers in five years.

The fast followers faced less risk and their average failure rate was only 8%.

Their study clearly showed that fast follower has an advantage over market pioneers.

Slide #4

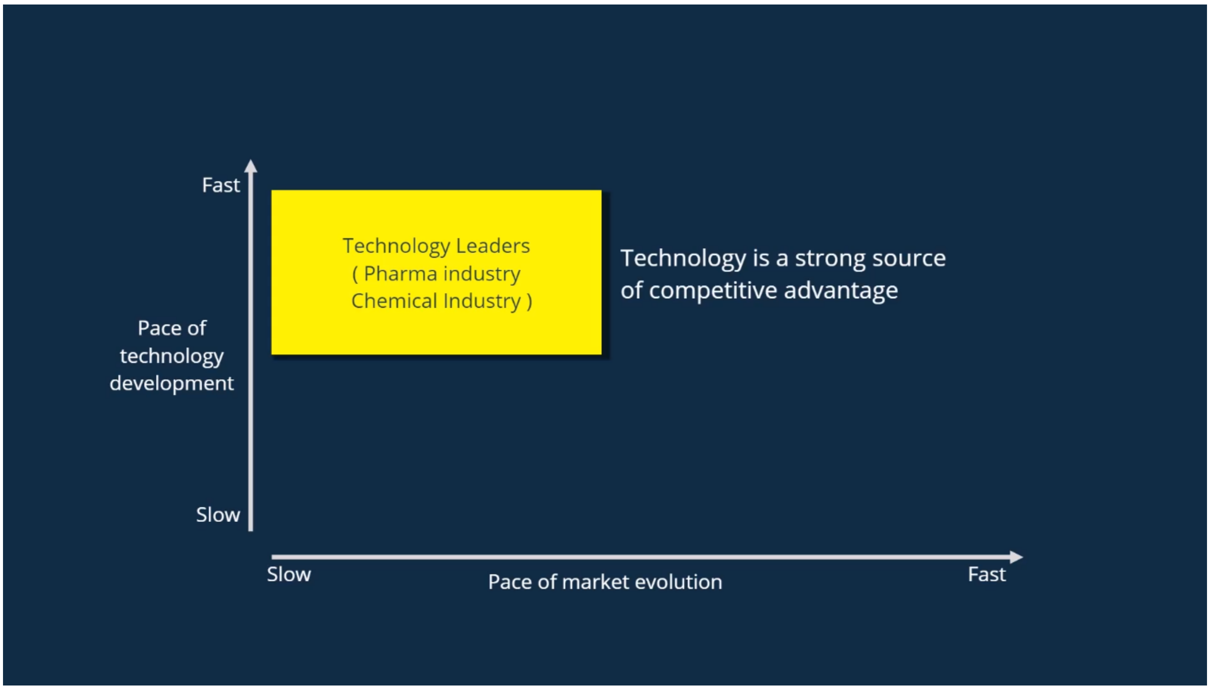


The decision depends on the industry dynamics and a company's capability.

This chart roughly summarizes industry dynamics.

We can categorize an industry in one of the four groups, depending on the pace of market evolution and the pace of technology development.

Slide #5



The yellow box represents those industries where the pace of technology development is fast, but the pace of market evolution is slow.

Some examples of this kind of industries are pharmaceutical and chemical industry.

Technology is a strong source of competitive advantage for those industries.

Slide #6

The red box to the right of the yellow box represents industries with rapid technology development and rapid market evolution.

Examples are mobile computing and e-commerce industries.

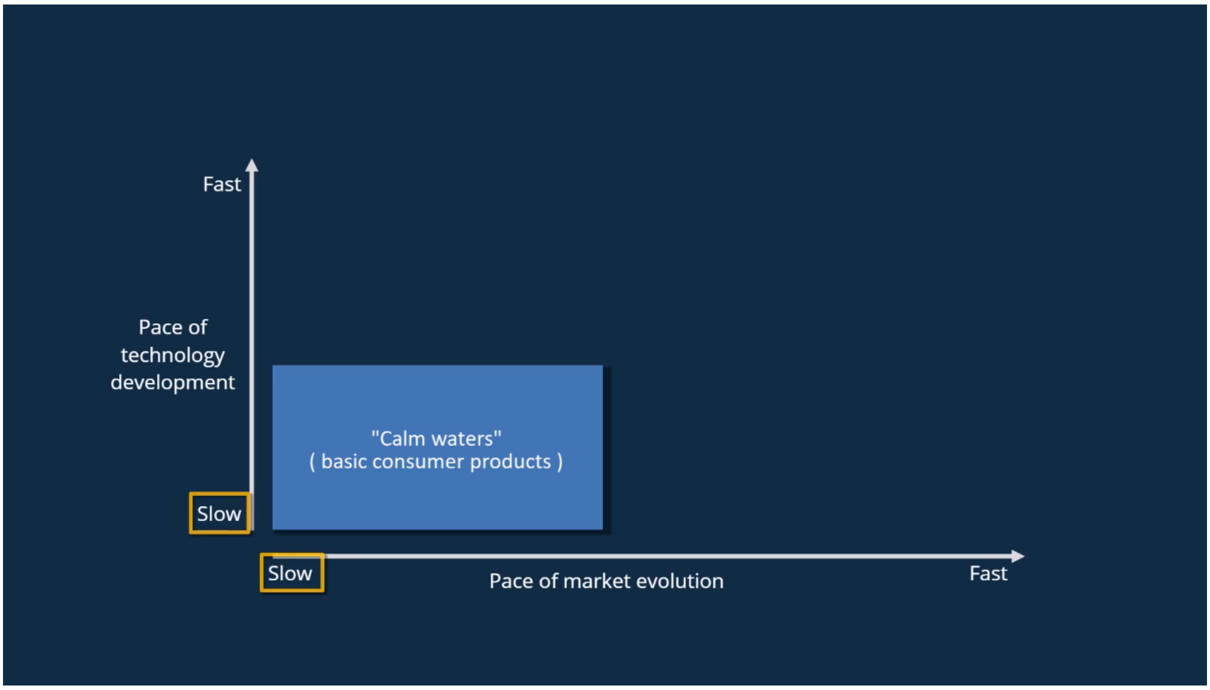
High risk and great opportunities are the themes of these industries.

Slide #7

Social media and video streaming industries experience rapid market evolution, but the underlying technologies are quite mature, so the technology development pace is relatively slow.

Marketing capability is a strong source of competitive advantage for those industries, and we call those industries market leader industries.

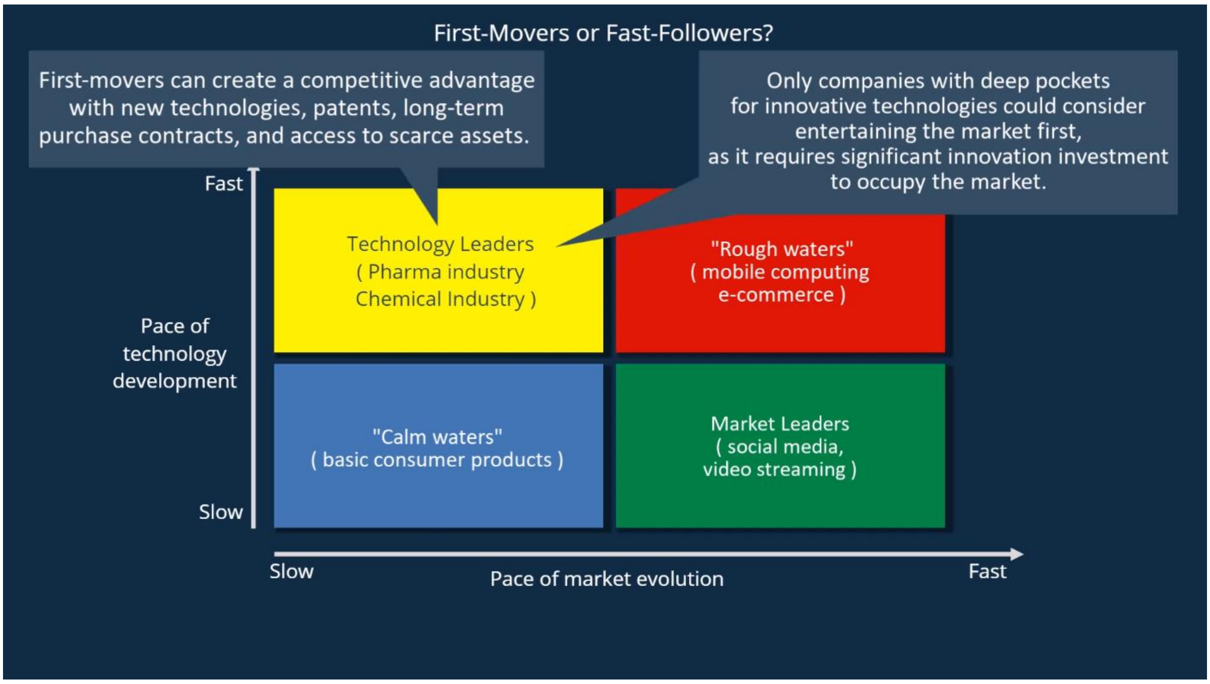
Slide #8



Basic consumer products industries are stable as both market evolution and technology development are slow.

So we call those industries, calm waters industries.

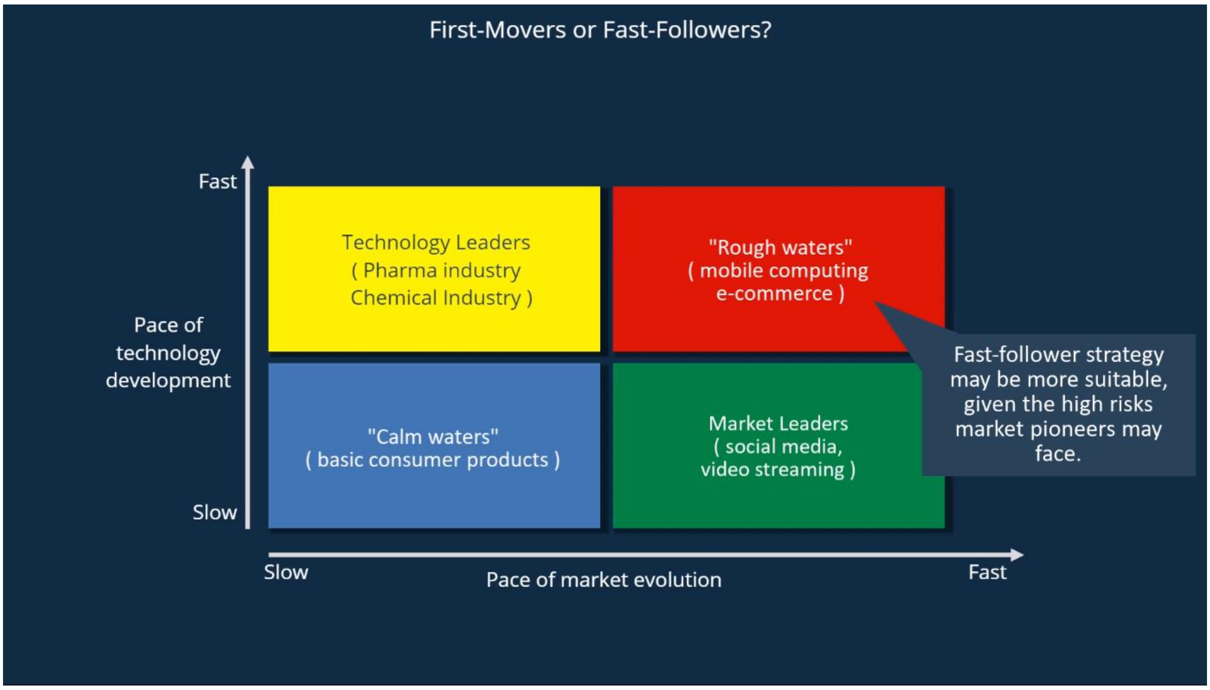
Slide #9



For companies in the technology leader type of industries, such as pharmaceutical and bulk chemicals, only the companies with deep pockets for innovative technologies could consider entering the market first, as it requires significant innovation investment to occupy the market.

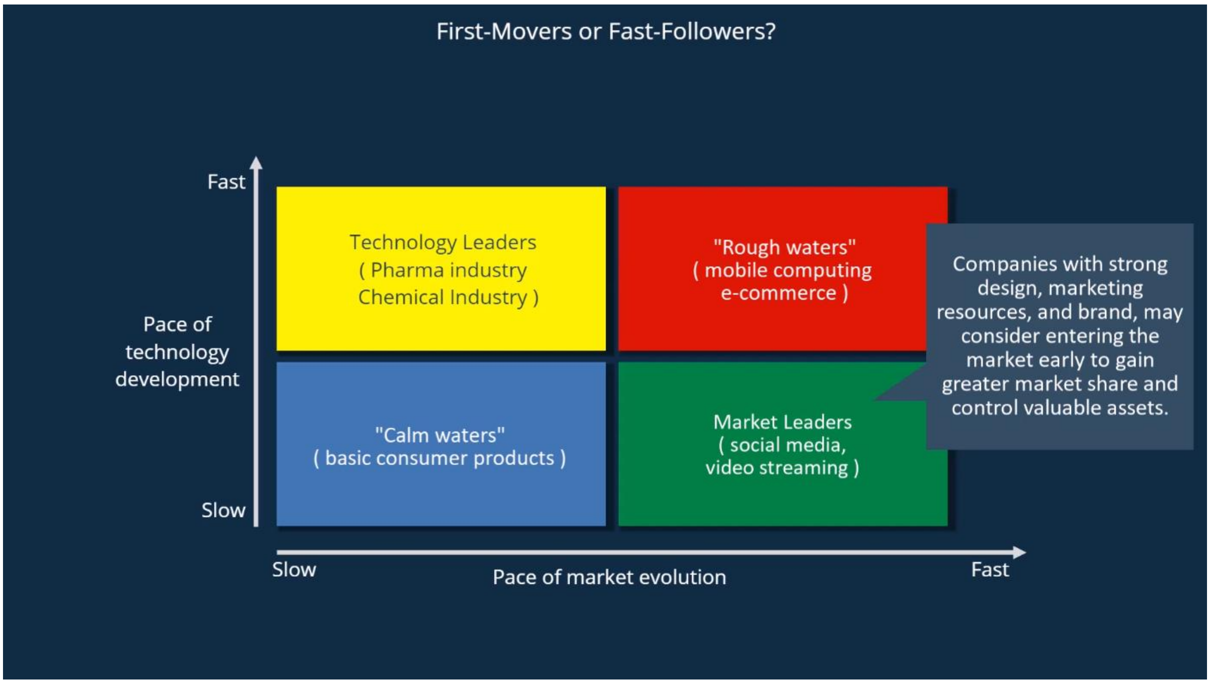
But first movers can create a competitive advantage with new technologies, patents, long term purchase contracts, and access to scarce assets in those industries.

Slide #10



For companies in highly dynamic industries such as mobile computing and e-commerce, fast follower strategy may be more suitable given the high risks market pioneers may face.

Slide #11



In market leader type of industry, such as video streaming and social media companies with strong design, marketing resources, and brand, may consider entering the market early to gain greater market share and control valuable assets.