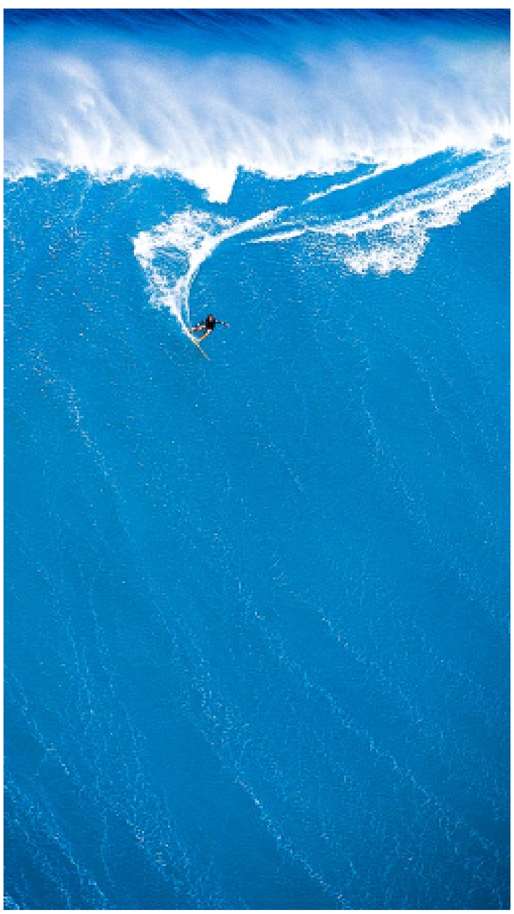
Harvard Business Review

INNOVATION

When First Movers Are Rewarded, and When They're Not

by Ronald Klingebiel and John Joseph

AUGUST 11, 2015



When it comes to launching new products, should your company be a pioneer or a follower? This question presents a constant dilemma for some businesses. Product pioneers face more risk, but can reap big rewards when an innovation proves successful. Second-movers, on the other hand, are assured more reliable returns. But the longer they wait, the higher the chance that the largest spoils have already gone to other, more daring players. So which timing strategy is better?

Our research shows that both approaches can be successful — what matters most is not simply timing but whether a company tailors its innovation strategy to whichever approach it adopts. We studied the German mobile-handset market during the feature-phone era of 2004-2008 — a dynamic period in which competition was about equipping devices with new functions such as photography.

When reviewing pioneers and followers in this large European market, we found that both approaches could produce good returns, but that innovation management at successful pioneer firms looked very different from successful follower firms in four key ways:

Scope

A key difference between successful pioneers and followers was how many innovations they launched. Because followers miss out on blockbuster returns, they cannot afford to fail as often as pioneers. Instead, they must weed out projects carefully and launch only a narrow scope of innovations they are (relatively) sure will succeed.

In 2006, HP — then still active in the mobile space – acted as a follower, but failed to focus its innovation portfolio. It introduced a broad set of mobile phone features that had already been on the market—including several audio, video, and camera features. Only some of these proved popular and led to much weaker return on investment than they created for the pioneering firms, making it difficult for HP to compensate for unsuccessful features.

Contrast that with Sagem, a vendor of French origins, which was also about two years behind the pioneers in terms of launching new features, but did so more selectively. It focused on two innovations, video calling and multi-frequency compatibility. This narrow focus on innovative features earned it roughly double the return on innovation investment (as measured by the ratio of R&D expenditure to new-product revenues) of HP and other late-movers that launched a more indiscriminate slate of innovations.

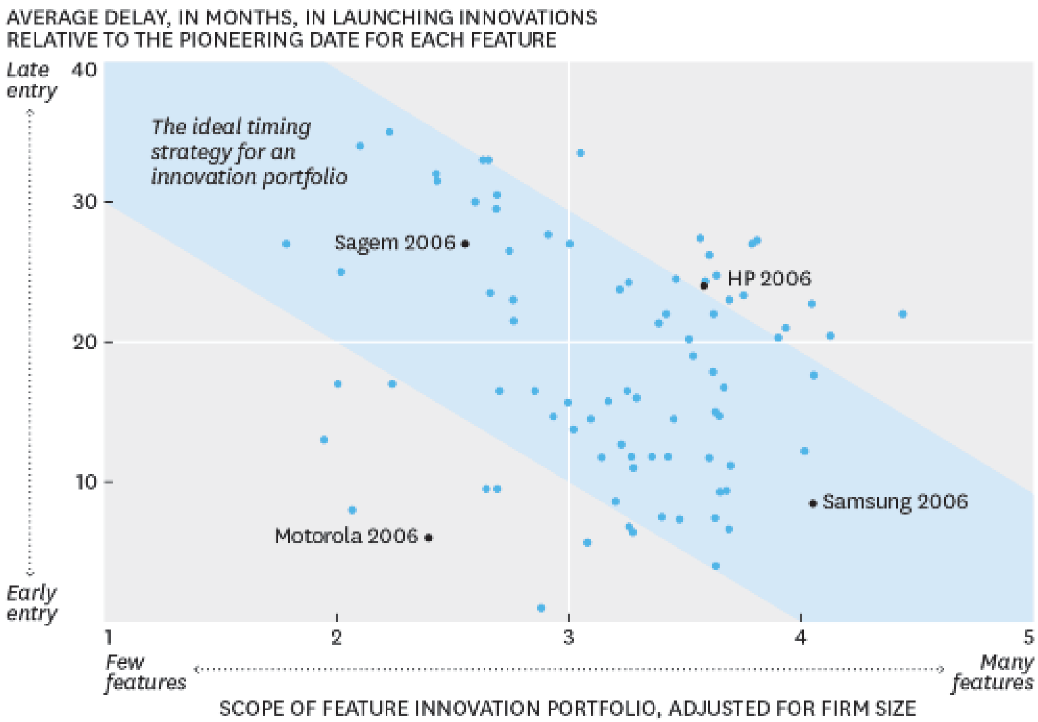
Samsung, a classic pioneer in the handset market, also had a successful year in 2006. While many of the roughly dozen features it brought to market flopped, the Korean tech giant was first to market with storage capacity of up to 4GB and new multimedia features, which allowed it to reap a big chunk of the rewards before other firms joined. These hits more than compensated for its unsuccessful feature innovations. Because of this dynamic, the overall return on innovation investment for broad first-movers such as Samsung is comparable to that of narrow followers such as Sagem.

Pioneers who come to market with a narrow scope of innovations take on enormous risk. Motorola in 2006, for example, concentrated on bringing to market HSDPA-enabled phones. Although technologically advanced, this did not prove profitable and Motorola had launched little else to compensate.

The graphic below plots these companies against others in the mobile industry during the feature phone era and illustrates that firms that match their timing strategy to their innovation portfolio fare better than those who don't.

Innovation Performance Depends on Matching Timing With Scope

Mobile companies that were successful in Germany in the years 2004–2008 either launched many innovations early or few innovations late.



SOURCE "ENTRY TIMING AND INNOVATION STRATEGY IN FEATURE PHONES," BY RONALD KLINGEBIEL AND JOHN JOSEPH, MAY 2015

Find this and other HBR graphics in our Visual Library

Diligence

Another key difference between pioneers and followers was the amount of due diligence they undertook before going to market. Asking too many questions can slow you down. Pioneers understand that even the most sophisticated business cases cannot help them remove the uncertainty of moving first. So instead of trying to get it right, they focus on moving fast, so that if an innovation happens to be a blockbuster, they are the ones to cash in on it.

By contrast, late-movers' returns on innovation are smaller; there are no blockbusters that can compensate for failures. Successful late-movers spend more time reviewing business cases and attempting to validate assumptions. They proceed only when they are sure. Consequently, their emphasis is on getting it right rather than moving fast.

Commitment

It might seem paradoxical but pioneers appeared more committed to innovations than followers. Because pioneers must get to market quickly, they do not interfere with development. Innovation teams have planning security and the confidence that the firm will do whatever it takes to bring a novel feature to market, undeterred by potential naysayers. Even if such critics turn out to be right most of the time, it is the few times they are wrong that matter for early-movers' innovation success.

Followers are more cautious. They have the luxury of watching the performance of features launched by early movers, so they can adjust their commitment to innovations as they go along. Successful late-movers ax more projects during development than first-movers. That way the features they do end up launching are likely successes.

Incentives

Traditional incentive systems tend to reward innovation managers if they successfully complete a product launch. This works well for pioneers, for whom speed is important. But it can wreak havoc for second-movers who gain an edge by avoiding the mistakes of early movers. Managers whose salaries are tied to project completion have a powerful motive to decide against raising concerns about a troubled project. Followers thus need to tailor their incentive systems so that it encourages managers to pursue experimentation more than completion, and removes penalties for project cancellation.

Our research of the vibrant mobile-phone industry of the last decade shows that there is no obvious advantage to moving first —second-movers can be just as successful. What matters most is understanding that the two entry-timing positions differ in terms of uncertainty and size of returns. You need to build an innovation strategy to match your timing preference.

Ronald Klingebiel is a professor of strategy at the Frankfurt School of Finance and Management in Germany. He focuses on technology management and all things Africa.

John Joseph is an assistant professor of strategy at the University of California, Irvine. His research examines organizational designs for better technology development, strategic planning, and growth.