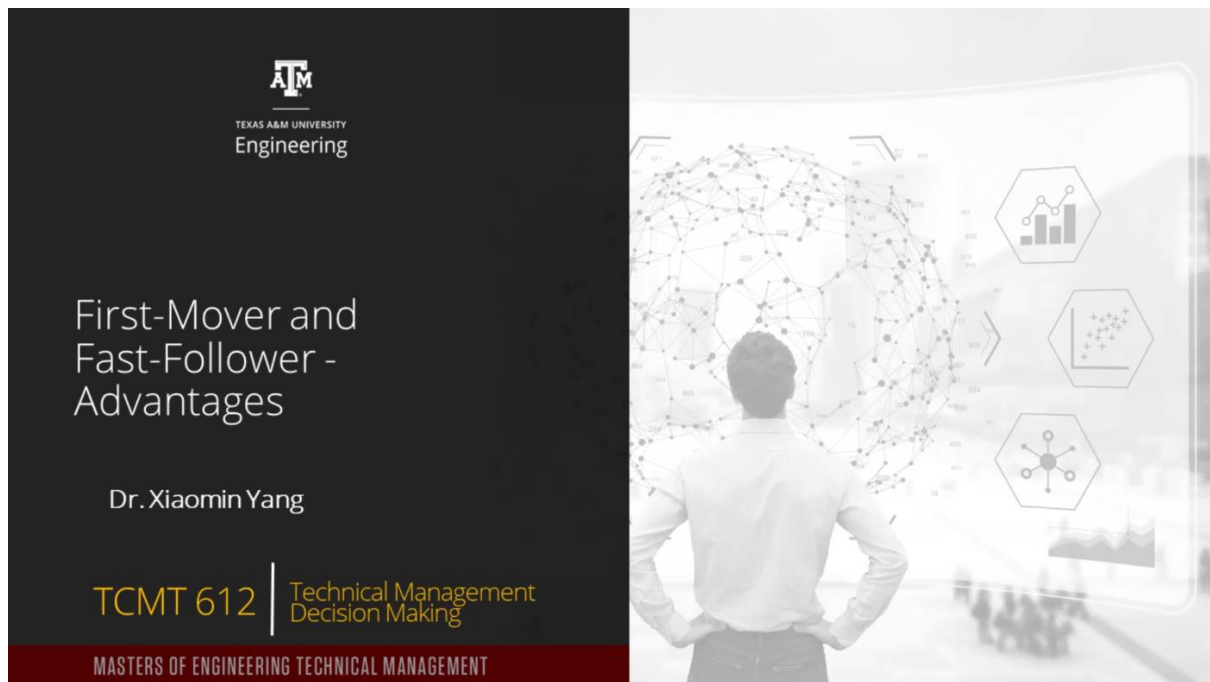


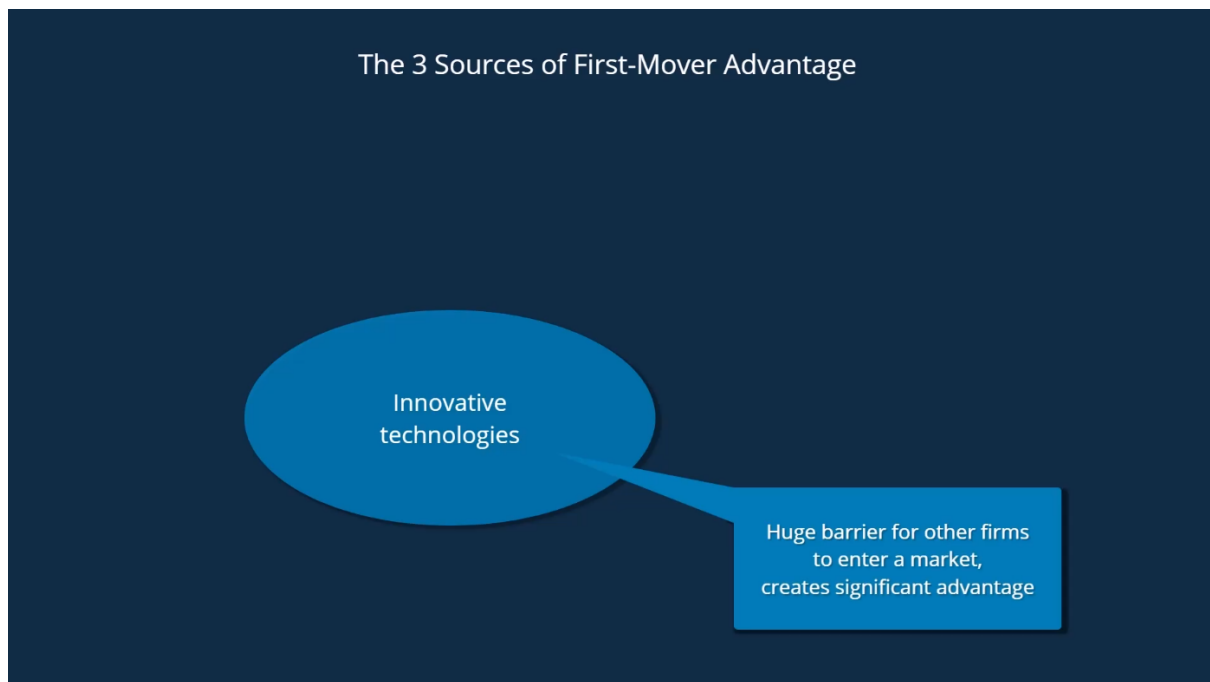
M5L16. First-Mover and Fast-Follower - Advantages

Slide #1



In this topic, we will discuss the advantages of first-mover and fast-follower companies.

Slide #2



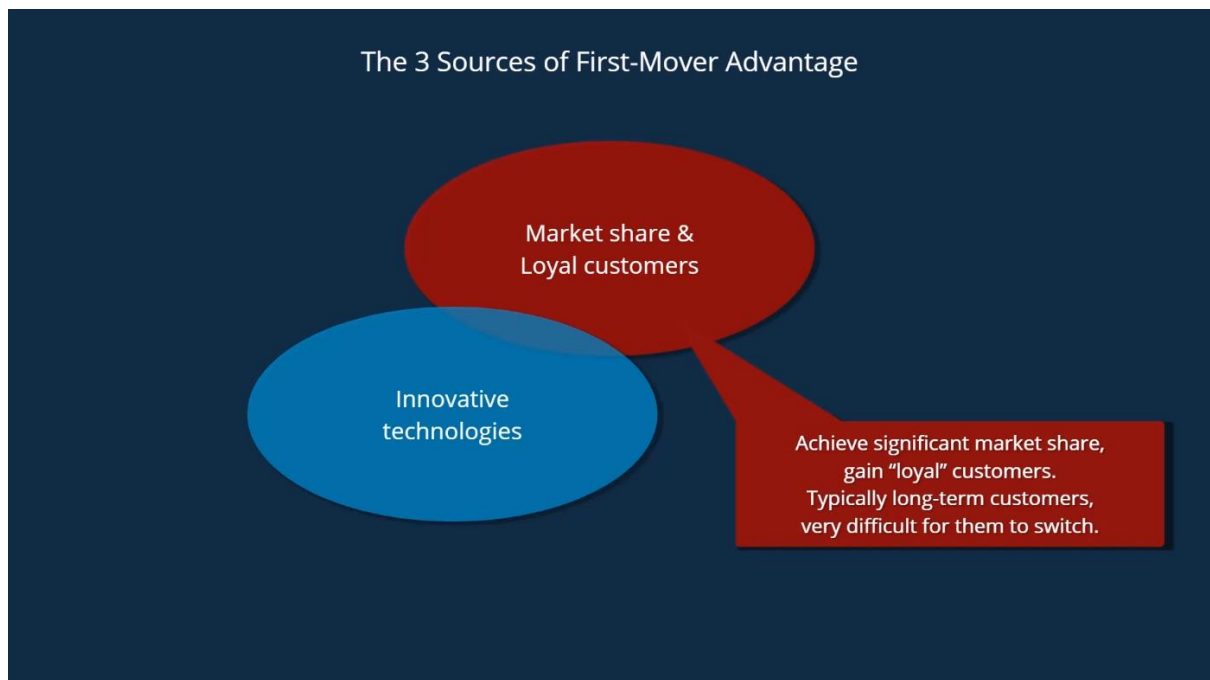
Let us first look at the sources of first-mover advantage.

A company's first-mover advantage comes from three major areas.

First, innovative technologies.

Innovation creates a huge barrier for other firms to enter a market and creates a significant advantage for a company.

Slide #3

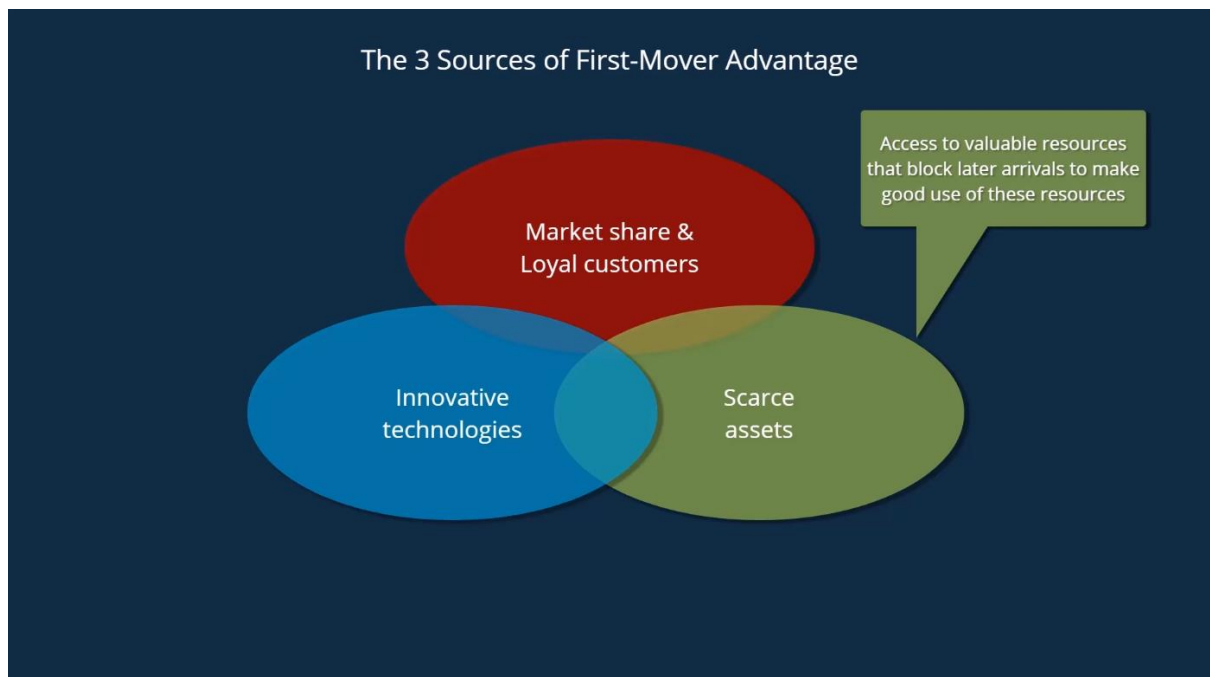


Second is the market share and sizable base of loyal customers.

First-movers can achieve significant market share and gain loyal customers.

Those loyal customers are typically long-term customers of a company and it would be very difficult for them to switch to other companies.

Slide #4



A third source of first-mover advantage is the company can have access to valuable resources that block later arrivals to make good use of these resources.

Slide #5

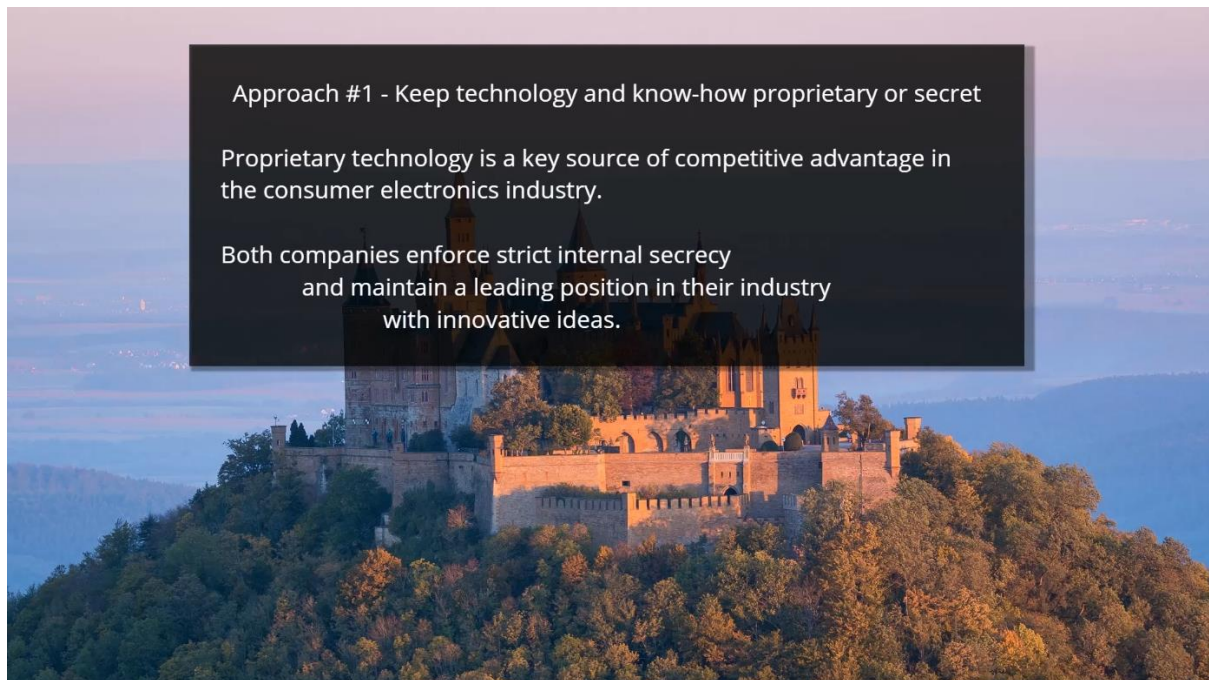


Technology leadership is important to first-movers as their innovative solutions have improved and accepted by the market.

The first-movers must do their best to prevent other firms from mimicking their innovative technologies and products.

Companies can take two approaches to protect their technologies and the innovation investment.

Slide #6



- Approach #1 - Keep technology and know-how proprietary or secret

- Proprietary technology is a key source of competitive advantage in the consumer electronics industry.

- Both companies enforce strict internal secrecy and maintain a leading position in their industry with innovative ideas.

The first approach is to keep their technology and knowledge proprietary or secret.

The recipe of Coca-Cola is probably the biggest secret of the beverage industry.

Proprietary technology is a key source of competitive advantage in the consumer electronics industry.

All electronics companies have secrets, of course, but in Apple, everything is secret.

Steve Jobs once explained that his secret idea is something that he borrowed from Walt Disney.

Both companies enforce strict internal secrecy and maintain a leading position in their industry with innovative ideas.

Slide #7



Approach #2 – Seek patent protection

Pharmacological industry, one of technology-based industries where patent virtually equals the product. highly regulated by government agencies to ensure safety and efficacy of products, which will be sold to customers.

It is very difficult to keep pharmaceutical products as a secret, pharmaceutical companies build a strong patent portfolio to prevent their competitors from stealing their products.

The second approach is to seek patent protection.

The pharmaceutical industry is one of the technology-based industries where the patent virtually equals the product.

Unlike industries such as computer and software, the pharmaceutical industry is highly regulated by government agencies to ensure the safety and efficacy of products which will be sold to customers.

Since it is very difficult to keep pharmaceutical products as a secret, pharma companies build a strong patent portfolio to prevent their competitors from stealing their products.


Slide #8



A company can take one approach or the other, or a combination of those two approaches to maintain their technology leadership.

Slide #9

Source #2 – Market Opportunity



Market share &
Loyal customers

First-movers face little competition before other firms enter the market.

The product pioneers have a window of opportunity to achieve significant market share and a sizable base of “loyal” customers.

The first-movers take advantage of the market opportunity, build up competitive advantage by creating switching costs that prevent newcomers from attracting their customers away.

First-movers face little competition before other firms enter the market.

The product pioneers have a window of opportunity to achieve significant market share and a sizable base of loyal customers.

The first-movers take advantage of the market opportunity, build up competitive advantage by creating switching costs that prevent newcomers from attracting their customers away.

Slide #10

Source #2 Examples - Switching Costs



Data migration,
training,
business disruption



Lose social network

Some examples are SAP Business Software and Facebook.

The switching cost of SAP is data migration, training, and potential disruption on business.

People may lose their social network if they leave Facebook.

Slide #11

Source #2 Examples – Brand Value

First-movers establish a superior brand that customers appreciate.



well recognized brands,
those first-movers use their brand value to protect their business.

Brand is a valuable competitive advantage also, and the first-movers establish a superior brand that the customers appreciate.

iPhone, Coca-Cola, and IBM are well recognized brands, and those first-movers use their brand value to protect their business.

Slide #12

The slide features a background image of a person in a blue suit. Overlaid on this is a dark hexagonal grid with various icons. A semi-transparent black box contains text about market intelligence and product differentiation. To the right of the text box is a white rectangular box containing a historical document snippet from Procter & Gamble.

First-movers use their market intelligence to control the market and cost.

Consumer product companies:
Procter & Gamble,
integrates its market intelligence into
technology and marketing decision-making process
to align their products with market needs.

Those companies have the capability to develop
a differentiating product
that their customers really appreciate.

PROCTER & GAMBLE,
SOAP AND CANDLE
FACTORY
AND STARCH FACTORY,
224 Main Street,
CINCINNATI.

First-movers can also use their market intelligence to control the market and cost.

Some consumer product companies, for example, P&G, integrate its market intelligence into a technology and marketing decision making process to align their products with market needs.

So, those companies have the capability to develop a differentiating product that their customers really appreciate.

Slide #13

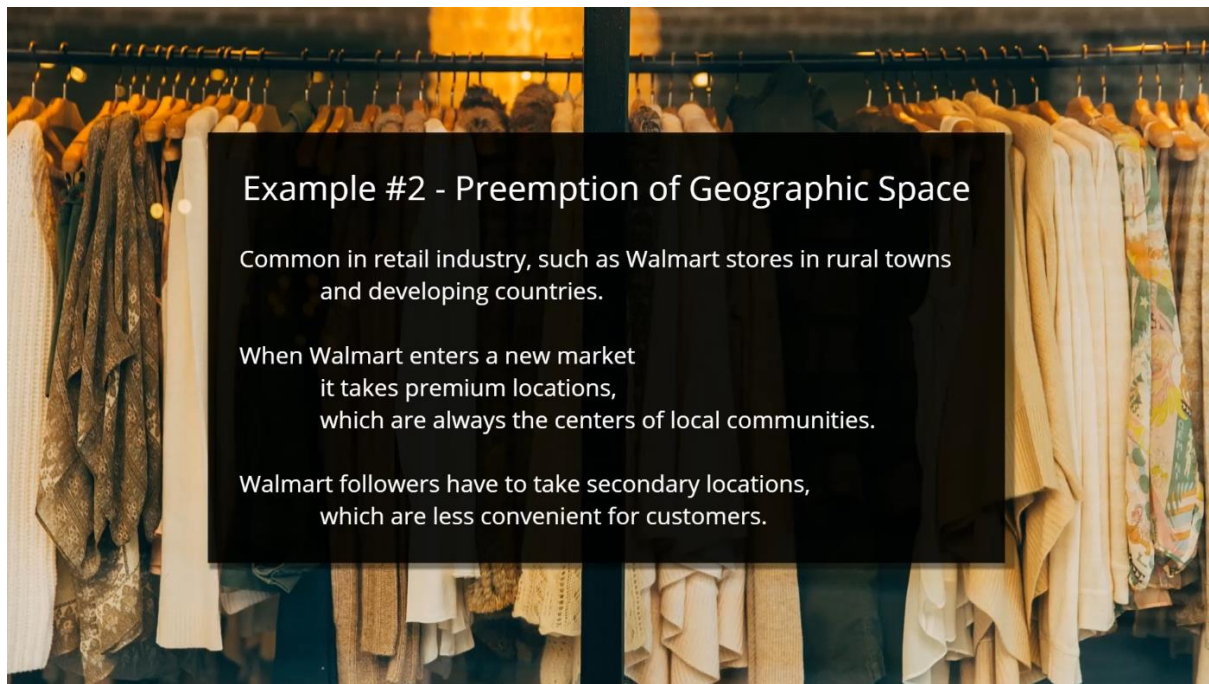


First-movers can block later arrivals access to valuable scarce assets.

This competitive advantage is obvious in the oil and mining industry. For instance, these oil majors own the long-term rights to the oil field.

Newcomers have to look at other parcels in order to get access to the oil and gas reserves.

Slide #14



Another example is the preemption of geographic space.

This is common in the retail industry, such as Walmart stores in rural towns and developing countries.

When Walmart enters a new market, it takes premium locations, which are always the centers of local communities.

Walmart followers have to take secondary locations which are less convenient for customers to go to.

Slide #15

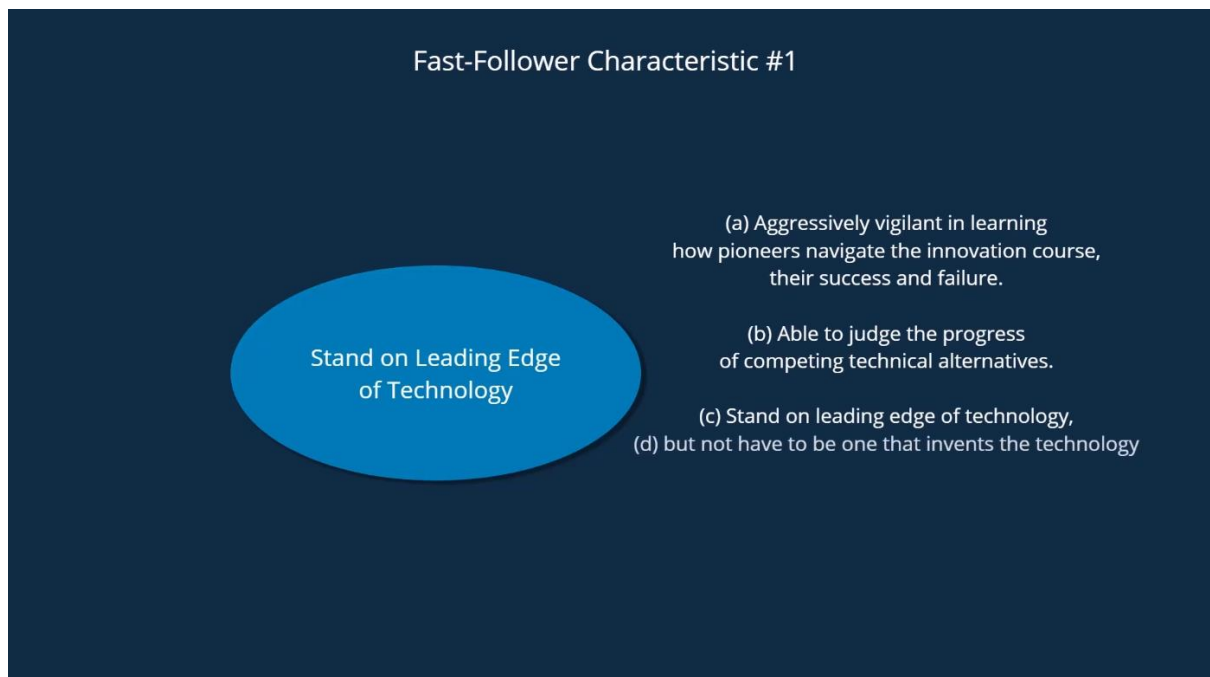
The 4 Characteristics of Fast-Followers

A company can create significant competitive advantage by rapidly following market pioneers.

A company can create significant competitive advantage by rapidly following market pioneers.

A fast-follower's competitive advantage resides in the following areas.

Slide #16

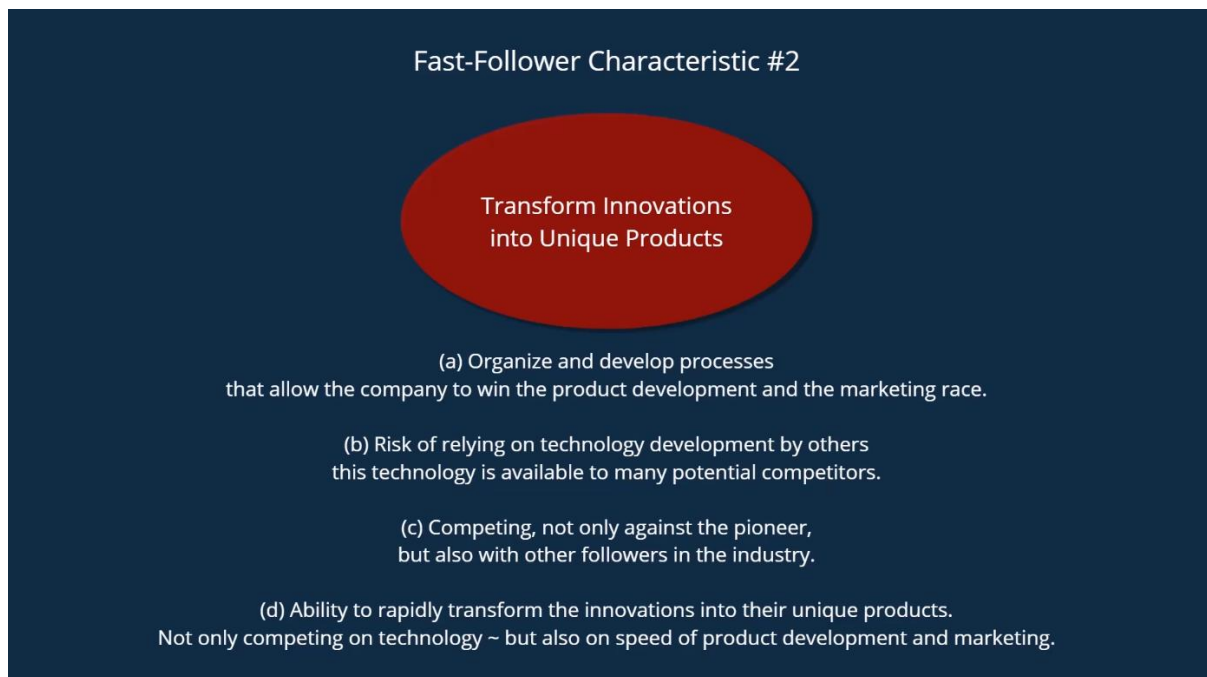


First, a fast-follower is aggressively vigilant in learning how the pioneers navigate the innovative course, their success and failure.

A fast-follower must be able to judge the progress of competing technical alternatives.

They need to stand on the leading edge of technology, but it does not have to be one that invents the technology.

Slide #17



Second, a fast-follower must organize and develop processes that allow the company to win the product development and the marketing race.

One risk of relying on technology developed by others is that this technology is available to many potential competitors.

So, a fast-follower is competing not only against the pioneer but also with other followers in the industry.

Consequently, the fast follower competitive advantage derives from its ability to rapidly transform the innovations into their unique products.

A fast-follower is not competing on the technology, but also on the speed of product development and marketing.

Slide #18



Third, a fast-follower needs to have intimate knowledge of customers' needs so that they can rapidly occupy specific market segments with differentiated products with key unique features that solve their customers problems.

With a sound growth strategy, fast-followers can steadily grow their market share and eventually take the market leader position from the first-movers.

Slide #19

Fast-Follower Characteristic #4

(a) Capability of making well-informed innovation decisions based on its knowledge learned from the experience of the pioneers.

(b) Enjoys fewer mistakes as a result.



Make Fewer Mistakes

A fast-follower's competitive advantage comes from the firm's capability of making well-informed innovation decisions based on its knowledge learned from the experience of the pioneers.

They enjoy fewer mistakes as a result.