Better growth decisions: early mover, fast follower or late follower?

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For companies seeking ways to fuel growth by capturing new markets, there is a pressing need to think hard about when it's wise to be an early mover, fast follower or late follower. Each of these options requires a different competitive strategy.

Many authorities have argued the merits and drawbacks of ''first mover advantage.''[1-3] In practice, however, knowing which firm is the very first in a market is often debatable and can be irrelevant. A wiser approach is to observe how early mover advantage might cement leadership in certain markets, and then consider what approaches and industry circumstances allow fast followers and late followers in other settings to triumph.

When is early-mover advantage real?

Although entrepreneurs often jockey for leadership at an industry's inception, in many cases none of these early movers has been a long-term victor.[4] Early movers can win only under four conditions – when a company can:

1. Preserve an early market lead stemming from barriers that later entrants will face.
2. Build resources and competencies that larger firms eventually could imitate but which they will prefer to acquire.
3. Avoid becoming locked into inappropriate technologies or business models before the market is deeply understood.
4. Avoid incurring large upfront costs because it is early to market.

If a company cannot meet at least two or three of these conditions, then it may be better off as a fast follower that learns from others' mistakes.

Here's how three enterprises with totally different business models met these conditions and achieved an early mover advantage:[5]

- **Zipcar.** This company rose from a conversation in a coffee shop in 1999 to become the leader in car-sharing services, renting cars by the hour from locations distributed around urban centers. In the decade since that fateful café encounter, Zipcar has become a $186 million firm with an estimated 80 percent market share in North America and promising operations in Europe. Zipcar has over 400,000 members paying fees to reserve cars online and access them from more than 4,400 locations.
- **Bosch Healthcare.** The market leader in technologies to remotely monitor chronically ill patients in their homes, the core of Bosch Healthcare used to be a startup called Health Hero Network before it was purchased by Bosch, the $63 billion leader in sensor technologies. Bosch is betting that remote-patient monitoring can become a giant industry that improves patient care while offloading work from overstretched physicians and nurses.

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- The Wiggles. Far-and-away the world's biggest band catering to children, The Wiggles plays at Madison Square Garden, records with superstars such as John Fogerty and Kylie Minogue, produces its own TV show, and has millions of young fans. The long road from its beginnings as outdoor buskers in 1991 has paid off; The Wiggles enterprise is pulling in $45 million a year.

Condition 1: raise barriers to competitors' entry

Hertz vs Zipcar. Imagine Hertz's task in trying to knock off Zipcar's concept with its new business called Connect by Hertz. The first problem is that Zipcar has completely defined the category in consumers' minds. Secondly, Hertz has to replicate its competitor's density of locations in urban areas to offer similar levels of availability. Hertz's dilemma is whether to establish these locations in advance of having people register for the service. It also has to create technology that, for instance, allows an individual subscriber's key card to unlock a car he just booked online. A further challenge is that the most attractive customers in a city already may favor Zipcar.

Bosch vs GE *et al.* Bosch is responsible for about half the remotely monitored patients in the world. It jumped to this lead because Health Hero Network, the firm that Bosch acquired, had received 63 patents, completed a raft of clinical studies, and made its technology recognizable to many hospitals and physicians. Now the remote-monitoring field is currently packed with startups, including ventures by big names such as General Electric and Intel. However, these firms lack Bosch's many early-mover advantages and have to try to compete by offering expensive services at low prices – not a typical formula for success.

The Wiggles vs other entertainers. When The Wiggles started out, the group had little competition in its genre, but it now has made it very tough for others to gain the attention of children. For example, the problem faced by kids' entertainer Eric Herman indicates that entertainment talent alone may not be enough to overcome The Wiggles' early-mover advantage. One reviewer called Herman's album, *Monkey Business*, ''the best kids' record ever.'' However, Herman lacks a TV show, major concert tour, merchandising, and a cast of well-known supporting characters. He is a musician – not a marketing dreadnaught like The Wiggles.

Condition 2: build resources and competencies that are easier to acquire than to imitate

With thousands of engineers specializing in sensor technology, Bosch easily could have created a bevy of remote-monitoring devices. Yet it would have needed to invent around or license a large number of its Health Hero patents, and it would have had to sponsor sometimes lengthy clinical studies. Bosch had no background in healthcare and would have needed to build up expertise in an arcane industry while cultivating opinion leaders who could persuade physicians to consider this unfamiliar company. Alternatively, it could buy the market leader. It is easy to understand Bosch's choice.

Health Hero Network, had it remained independent, would likely have struggled against the dozens of competitors eyeing this field. Eventually, those competitors would surely have chipped away at the company's market share through sheer persistence in selling and desperation in pricing. As a standalone, Health Hero would also have faced other challenges. Like many startups, it lacked a large salesforce and deep pockets for marketing. Some customers might have worried about trusting patient care to a relatively new firm. By acquiring Health Hero, Bosch dealt with both firms' shortcomings at a single stroke by combining the advantages of a large, technology-oriented company with those of a small, health-care-oriented early leader.

Condition 3: avoid being locked in

A potential disadvantage of starting early is the risk of being locked into a technology or business model that proves unsuited to the new market. Zipcar mitigated this risk through extensive pilot testing. For instance, when it first ventured outside the United States, it learned the ropes in the similar market of Toronto, where it could relatively easily work through basic issues of global expansion, such as differences in auto-insurance requirements.

Another form of being locked in occurs when companies target their biggest, most profitable customers as the focus of their innovation efforts, creating ever-fancier products at ever-higher prices. This makes good business sense, except when discontinuities arise in the market that lead to new waves of growth coming from different business models or new categories of customers. Companies in this situation find it nearly impossible to change due to organizational and financial rigidities.[6]

Condition 4: avoid large upfront costs

A further hazard of being an early mover is the potential expense of investing in a product that proves poorly suited to the market's eventual direction. Early movers can mitigate the danger of upfront costs through careful management. For example, Bosch managed to get a large healthcare provider, the US Veteran's Administration, to conduct several key clinical studies with the company's equipment, thereby minimizing Bosch's testing costs.

Exhibit 1 lays out several of the factors that can make each of these four conditions apply, as well as how they relate to Zipcar, Bosch, and The Wiggles.

Exhibit 1 How three enterprises with totally different business models met these conditions and achieved an early mover advantage

Raise barriers to entry	*Become acquisition target*	*Avoid lock-in*	*Avoid upfront costs*
Become completely associated with the category (Zipcar, Wiggles) Create customer preference through helping users define their tastes (Wiggles) Lock up distribution channels (Bosch, Wiggles) Lock up physical infrastructure (Zipcar) Accumulate learnings (Zipcar, Bosch) Develop broad product line (Wiggles) Benefit from economies of scale (Zipcar, Bosch) Breadth of users creates more useful network (Zipcar, Wiggles) Own intellectual property (Zipcar, Bosch)	Establish advantages replicable only with long lead-time (Bosch) Create desirable brand (Zipcar) Establish strong customer relationships (Bosch) Create costs for customers to switch solutions (Bosch)	Able to pilot (Zipcar, Bosch) Able to shift technology or business model with modest costs (Bosch) Able to catch changing technologies or customer preferences quickly (Zipcar, Bosch, Wiggles) Able to make decisions rapidly (Zipcar, Bosch, Wiggles)	Able to pilot at modest cost (Zipcar, Bosch, Wiggles) Scale-up costs are roughly linear with income potential (Zipcar, Wiggles) Generate income quickly due to fast customer adoption (Zipcar, Wiggles)

Strategies for early movers

If the viability of an early mover position is determined by the factors in Exhibit 1, a company meeting these criteria should milk its advantages for all they are worth. For instance, if part of Zipcar's appeal versus Hertz is that it has a critical mass of both users and cars in key cities, then it should focus on attaining those scale advantages in all the most important cities rather than establishing subscale outposts in a large number of second-tier locations.

Beyond this imperative, early movers should look closely at the business model of their industry to see how their approach creates advantages and vulnerabilities. To chart potential strategies, managers should determine where their enterprise fits among three general types of business models:[7]

- Solution shops like niche scientific instrument makers and customized software application developers create specially made offerings. They often dominate at the early stage of an industry. An ecosystem of suppliers has yet to coalesce, customers are not yet certain about what they want, and firms are flexible in adapting their offerings as they learn more about the market. When an industry is fated to remain a solution shop because its value lies in customization or its customers are inherently heterogeneous, early movers can do quite well. Customers frequently buy solution-shop outputs based on the supplier's reputation because there are few other ways of judging the quality of a highly customized offering. Early movers in the market can create a reputation that others will have a hard time matching, and this can be an essential strategy in solution-shop industries. However, if an industry looks set to standardize – perhaps because this will lower costs or bring about a broader product line – leadership in the solution-shop phase may translate poorly to the next stage of industry development. For example, the Altair 8800 was the first personal computer, but it catered to the sort of hobbyists who read electronics magazines. They were quite different from the people who bought the first Microsoft and Intel-based PCs. The hobbyists sought out the technical challenges that drew complaints from mainstream users.
- Value-chain business models organize companies like automakers into a chain in which the outputs of one step become the inputs of another. These systems put a premium on efficiency, consistency, market power, and access to sales channels. Though not a pioneer of personal computing technology, IBM had leverage with suppliers, software developers, resellers, and others to create an ecosystem of firms that enhanced the value of its first PCs. In a value-chain business, it is not essential to be early, but it is important to be one of the first to create a solid ecosystem. IBM became a dominant player when the hardware and software of its ecosystem for the PC became the industry standard.
- Facilitated-network businesses like Facebook reap their competitive advantage from the size of their network. This is why Visa is so dominant in credit cards or Facebook in social media. With the network business model, it is critical to be early. A firm need not be first, but it should quickly earn a strong position it can own and that can serve as a launching pad to penetrate the broader market while the industry is still nascent.[8]

The challenges for fast followers

Followers need the discipline to hold back and then to move quickly before an industry's competitive order becomes set in stone. But there is a critical caveat: Many companies find it impossible to be a fast follower; by the time they get to market in a significant way, they will be too late. Because of factors such as decision-making timeframes, product-development cycles and the length of the sales process, a company's eventual entry into a quickly moving market may be so delayed as to be irrelevant.

There are some circumstances, however, that give fast followers special advantages.[9] For example, if a company has strong local market power, such as a grocery or newspaper, it can learn from experiments happening in other territories and then copy the winning formulas. Also, firms that have strong sales capabilities can overcome the lead of early movers. Additionally, fast followers can do well if high upfront expenses for early players sap

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the pioneers’ financial strength and leave followers with a cost advantage. For example, 1990s satellite-communications pioneers like Iridium employed high-cost technologies to serve small markets in the developing world – a tough proposition – while follower communications-services companies like O3B are now deploying lower-cost satellites to serve these markets, in which demand has since grown substantially.

Fast followers can try to exploit some of the advantages of early movers through the strategy of open innovation.[10] By developing a network of contacts that are pursuing early-stage ventures and inventions, large companies may have first crack at scaling up the most promising ideas. The early tinkerers in a category – working in startups, academia, or their own garages – can affiliate with large enterprises by making deals to get modest investments of money, time, and strategic advice.

While being a fast follower means missing out on key early-mover advantages, opportunities are still available. For example, as a world leader in display technology, Japan’s Sharp Corporation doubtless envies the success that Apple has had with its iPad, which had $5 billion in sales just in its first six months. How could it distinguish its tablet offering from that of the clear market leader?

Sharp had three options:

- Choose a niche to pursue vigorously, seeking to be known quickly as the dominant player for that particular market need.
- Focus on a geographic territory where it is comparatively strong or market through strong sales channels that can seize market share.
- Leverage Sharp’s other advantages as a leader in digital displays.

Sharp opted to implement all three approaches. Its niche is its tablet’s Asian character-capability, and Sharp is concentrating heavily on its home turf of Japan. Outside Asia, the company is partnering with wireless carriers to provide them with tablets sold exclusively through their channels. It is also using a new Sharp display to be the first tablet offering glasses-free 3D capabilities for pictures, videos, and games.

When can late followers succeed?

Occasionally, late movers have done well. While Motorola invented the cell phone in 1973, Nokia and Ericsson were fast followers and became early market leaders, particularly in Europe. Yet, today, Korea’s Samsung and LG are global giants in the industry despite having entered the category well after those other firms. When can late followers win?

- Exploiting missteps. Samsung and LG grew rapidly in part because of missteps by the market leaders, such as letting designs become stodgy. The Korean companies created fashionable phones and mastered the intricacies of executing rapid design cycles.
- Leveraging channels. Samsung and LG also benefited from the fact that many people buy their handsets through cellular carriers that subsidize the devices. Carriers will put only so many handsets into their lineup, and the Korean firms offered those partners good terms to force consumers to consider these new brands.
- Using the network. The large businesses that both Samsung and LG have in display technologies and other cell-phone components create advantages for these firms. They

can start discussions about integrating new components very early in design cycles, and so they can be first to market with innovative features such as large and stunningly clear screens. Although the companies were late followers in the cellphone industry, they capitalized on the rapid pace of change in this field to be leaders in new types of handsets.

- Redefine the category. If Samsung and LG arrived once the cell-phone party was in full swing, Apple seemed to enter once guests were already starting to leave. Yet the iPhone captured over 30 percent of the profits in the entire cellphone industry. Apple achieved this feat partly because the iPhone is a mobile Internet device as much as it is a phone.

Moving to action

A business assessing its strategic options, given its market timing, should first analyze and understand what industry it's in – what are customers really buying and what is its true competition? Seen through one lens, Apple's iPhone was a very late entrant into the cellphone industry. But by facilitating an immense network of users and application developers, after it entered it became a dominant player in the mobile Internet space. Once a company defines what business it wants to be in, it can determine the advantages and drawbacks associated with entering the industry at different times and with the strategic resources it has at its disposal. Success will be a matter of which firm pursues a strategy best matched to the timing of its market entry and its competitive position.

Notes

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