

First Mover Advantage

Idea In Short

The competitive advantage achieved by the original ("first-moving") significant occupant of a market segment is known as first-mover advantage (FMA) in marketing strategy. A company or firm with a first-mover advantage can create strong brand recognition, customer loyalty, and early resource purchases before other competitors enter the market segment. First movers in a particular industry are almost always followed by competitors who strive to profit from their success. These followers are likewise attempting to increase market share; however, most first-movers will already have a substantial market share and a loyal client base, allowing them to keep their position. Simply put, a first-mover advantage is a company's capacity to outperform its competition by being the first to market in a new product area.

The first-mover advantage is the benefit of high brand recognition, customer loyalty and increased sales that often accompany a business who is the very first to enter the marketplace with a new product. According to HBR:

A first-mover advantage can be simply defined as a firm's ability to be better off than its competitors as a result of being first to market in a new product category

Being the first to enter a market often allows a firm to create high brand awareness and customer loyalty before competitors enter the fray. Other benefits include more time to refine its product or service and the ability to decide the market price for the new item.

First Mover Advantage

First mover advantage or FMA is a notion from game theory that the first to enter a market can obtain a massive advantage such as brand name recognition, customer loyalty, market share, etc. The same applies for the first to introduce an innovation. The advantage is not

just because the first company can erect barriers to entry, but also because competitors and rivals may be put off from committing the required resources to compete. The term today is often referred to as technological leadership.

Resource Access

The main first-mover advantage is control of resources. With this edge over its competitors, the first-mover can be rewarded with considerable profit margins and a status of virtual monopoly. Gradual progress in both technology and markets gives the optimum circumstances for early movers to establish a long-term dominating position. Later entrants find it difficult to differentiate their products from those of the initial entrant due to the slow pace of technological improvement. Even if competitors figure out a way to accomplish it, the differences aren't great enough to prohibit the first mover from mastering it and incorporating it into its product line quickly.

Competitive Response

What happens if, on the other hand, technology advances rapidly but the market is hesitant to absorb the new product category? A fleeting first-mover advantage is quite unlikely in this case. Early entrants endure several years of flat revenue and operational losses, as well as stock market experts' mistrust. At the same time, the breakneck speed of technological development attracts new competitors who believe their innovations will lure customers away from the incumbent and its outmoded goods. A long-term advantage is likewise doubtful for most early entrants and most late comers. Only a large corporation with huge funds could join such a market first, survive in its difficult environment, and endure a significant delay before gaining long-term first-mover benefits. Deep pockets enable a company to wait until the speed of technological development slows, or until the fundamentally new technology embodied in its product line becomes the new standard, and the market takes off. Of course, the corporation will require a strong R&D competence to remain at the forefront of technology in the meanwhile. When the underlying technology of a product evolves at a rapid pace, the item quickly becomes outdated. More often than not, such items are supplanted by new entrants, who aren't burdened by maintaining and servicing existing product lines and may innovate without concern of cannibalizing earlier investments. The phrase "vintage effects" has been used by some academics to describe the tendency of new generations of technology to usher in successful entrants.

Advantages

Defining Industry Standards

First movers set up benchmarks for the entire industry. Their manufacturing and marketing practices define the industry norms for other competitors.

Wide access to Suppliers

When the company is the first one to enter the marketplace, it offers it a wide variety of suppliers to choose from. It can, thereby, negotiate best deals and reduce costs, providing the consumers with the best quality products.

High Brand Recognition

Since the first mover's product is the only one in the industry, customers associate the brand with the product helping in developing long term relationships with customers.

Very high Switching Costs

When a consumer purchases the products of a first mover, it develops a strong business foundation. Normally, the customers would not switch to the competitors.

Good relationships with Retailers

Being the first mover will aid in developing excellent relationships with retailers. The more popular the product would be, the number of retailers wanting to work with the firm.

Disadvantages

Heavy competition

The competitors can examine the processes adopted by first movers and produce similar products at reduced cost and improved efficiency.

Education costs

Making the customer aware about the new product will involve a lot of expenditure in terms of marketing, advertising etc.

Benefits Competitors

The competitors can learn from the mistakes made by the first mover and take advantage of that. Thereby, producing a better product.

Case – Coca Cola

First sold on May 8, 1886, Coca Cola was originally intended as a patent medicine, created by JS Pemberton from Georgia, and was sold as a medicinal beverage. During that time, carbonated water was considered as good for health in the US and Pemberton claimed his new drink to be helpful in curing many diseases like indigestion, headaches and even impotence. In 1889, American Businessman AG Candler purchased the Coca Cola formula to sell it to regular customers. It was formally founded in 1892 and its distribution expanded beyond Atlanta. By 1895, Coca Cola was being sold in every state in the union. It was advertised as "Delicious!", "Refreshing!", and "Exhilarating!" beverage and by 1948, it had captured 60% of the American market share. More than 130 years have passed but Coca Cola still remains as a market leader in the soft beverage category. The right business decisions transformed the journey of Coca Cola, from a small Atlanta Pharmacy to one of the most recognizable brands of the world.

What is a Late Mover?

A company that enters the marketplace with a new product much later after their competitors have debuted new products is called Late Mover. Late movers often choose their timing purposefully to ensure their product is optimized to meet customer needs and can be produced as efficiently as possible to save the company money.

Summary

The first mover advantage by companies might result in high brand recognition, customer loyalty and revenues. However, the companies which are quickly able to adapt to the

changing environment and produce products which are similar to the one's produced by the first mover companies in an efficient and effective manner often lead the industry. Being the first mover does not guarantee success to the companies, but adaptability to ever-changing consumer needs often does.