

When running second wins the race: examining the benefits of second-mover advantage

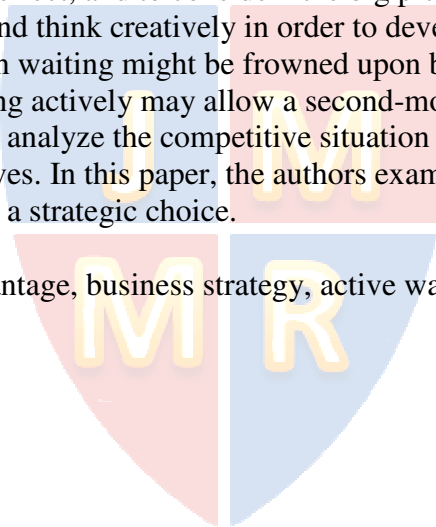
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ABSTRACT

Skilled managers are expected to be able to make quick decisions. In fact, highly-valued managers are often those who operate at high-speed in all their work. In business managers perceived as showing initiative, taking charge, and getting things done are esteemed. Unfortunately, many managers sometimes get so caught up in the fast pace of business that they do not take the time to pause, reflect, and to consider “the big picture.” The authors propose that managers take time to reflect and think creatively in order to develop a more systematic approach to planning. Although waiting might be frowned upon by some, waiting does not have to be disparaged. In fact, waiting actively may allow a second-mover, or close follower, additional time to examine and analyze the competitive situation and select the ideal time to make appropriate strategic moves. In this paper, the authors examine the benefits of being a second-mover and offer that as a strategic choice.

Keywords: second-mover advantage, business strategy, active waiting



INTRODUCTION

Aesop's Fables included the story of the tortoise and the hare in which an over-confident hare, despite its potential for speed, becomes distracted and overly confident in his own prowess and loses the race to the slower moving tortoise. Much like the hare, market leaders sometimes become cocksure and lose focus on the race which then allows second-movers to overcome them. In the story of the tortoise and the hare, the tortoise makes a profound comment to the hare when it says "Slow does it every time." The authors propose that sometimes a slow strategy (after the tortoise above) that allows management time to pause and reflect, learn from the mistakes of frontrunners and use that information as the basis for a successful strategy, can be valuable.

In many instances, management applauds winning, being first, thinking fast, and beating the competition. It can be universally assumed that to the speedy go the spoils. Hamel (2001) noted that the first mover advantage was a near-sacred mantra that was wholly beyond criticism and Boulding and Christen (2001) further noted that early entrants tended to make large and lasting positive impressions on customers, earn strong brand recognition, and impose high switching costs on clients who may consider shifting to more recent market entrants. In addition, Cottrell and Sick (2002) observed that pioneers have advantages of technology leadership and moving down the learning curve in product and process innovation, and Lieberman and Montgomery (1988) noted the benefits of frontrunners associated with the preemption of rivals.

There are examples of first-movers who remain successful. Perhaps one of the best illustrations of a successful first-mover could be Coca-Cola. Introduced in 1886, Coca-Cola now markets more than 3000 beverages in more than 200 countries around the world earning revenues of \$46.854 billion in 2013. Being a first-mover such as Coca-Cola, you have the opportunity to become the "top of mind" brand, so whenever a customer thinks of a cola, they think of Coca-Cola. The firm has remained on top now for more than 100 years

(http://www.ask.com/wiki/The_Coca-Cola_Company). Burkitt and Bruno (2010) point to other market pioneers who have also been successful at fending off market challenges by followers, including IBM who blocked General Electric, RCA, and Xerox from entering the computer market.

Terms

active waiting- Active waiting consists of anticipating, preparing for, and seizing opportunities and dealing with threats as they arise (Sull, 2005).

close follower (or fast follower)- A business that recognizes others good ideas quickly and moves to implement them within the organization (<http://www.businessdictionary.com/definition/fast-follower.html>).

drafting- The practice of two or more cars, while racing, to run nose-to-tail, almost touching. The lead car, by displacing the air in front of it, creates a vacuum between its rear end and the nose of the following car, actually pulling the second car along with it.

http://static.nascar.com/content/nascar/en_us/sprint-cup-series/nascar-nation/nascar-edu/tech-glossary.html

first mover- First mover advantages accrue to a firm that gains a first mover opportunity (through proficiency or luck) and is able to maintain an edge despite subsequent entry (Lieberman, 2005).

second mover- Often a fast follower, the second mover avoids high up-front costs for research and development, as well as marketing to introduce a new product idea (<http://www.allbusiness.com/management/3876540-1.html>).

DISCUSSION

Most businesspeople consider winning market share and earning profits to be the overall objectives of business, companies that lead the industry in the early market stages might not necessarily be those that continue to be frontrunners as the industry matures. Although pioneers have a “first-mover advantage,” that benefit typically lasts only for as long as the firm maintains an effective strategy. Indeed, Robinson and Min (2001) discussed memorable phrases that reflect the associated survival risk associated with pioneers including “the first to market is the first to fail” and “the pioneer is the one with the arrows in its back.”

Consistent with this view, Boulding and Christen (2001) noted that followers can free ride on the experiences of their predecessors, thereby reducing their own investment requirements and risks which can often lead to profit disadvantages for market leaders after approximately 10-12 years. In addition, followers can frequently adopt new and more efficient technologies and processes, whereas pioneers often seem to be entrenched in their original ways of doing things. According to Schnaars (1994) follower advantages also include: avoiding products that have little or no potential, lower R&D expenditures, lower costs associated with imitating rather than innovating, lower costs of educating customers about innovative product ideas, and the possibility of stranding the innovator with obsolete product standards. Finally, Shankar and Carpenter (2013) found that first-movers were more successful than late movers in only 15 of 50 product categories. These studies suggest that it may not be correct to assume that first-mover status may not produce sustainable advantages and that order of entry into a market and market share are causally related.

Second-mover advantages

Auto racing provides us with an example of second-mover advantage. A typical strategy in the National Association for Stock Car Auto Racing (NASCAR) can be found in the practice of *drafting*, where a driver slides in very close behind another car which in effect, pulls the vehicle along the track, conserving fuel in the process. When the driver feels the time is right, the driver then slingshots past the lead vehicle and becomes the new leader. Actor Tom Cruise, in the 1990 movie *Days of Thunder*, uses this exact technique to win the Daytona 500 (Paramount Pictures, 1990). Drafting as a strategy can also be found in other sports, including Olympic Speed Skating where the second place skater positions him or herself behind the leader, conserving energy and waiting to move at just the right time to overtake the leader. Similarly, a business can be a close follower, all the time observing the other competitors and at the opportune time, race past the market leader and become the dominant industry player.

Henricks (2009) cites several companies that benefitted from second-mover advantage. For example, Voodoo Tiki Tequila challenged the category market leader, Patron Spirits

Company in the high-end tequila market segment. Patron's strategy was based on educating and convincing consumers to switch from drinking vodka to instead drinking tequila.

Another example can be found in the alcoholic beverage industry. In the Tequila product category, Tiki Voodoo Tequila can be considered a second-mover. As a second-mover, they did not have to spend the time, effort, and money instructing consumers about their brand because product leader Patron had already educated consumers and helped make tequila a popular alcoholic beverage. Tiki instead focused on improving packaging. Competitor Patron uses traditional Mexican-style packaging while Tiki uses hand-blown glass bottles with a small Tiki inside the bottle (a Tiki is a wooden carving that looks like a person). Tiki numbers each bottle, giving the appearance that each bottle of Tiki Voodoo Tequila comes from a limited series, high quality collection. Tiki customers now choose to pay more for what they consider to be a first-class, premium tequila.

Other examples of successful second-movers can be found across many industries. Henricks (2009) points to examples including Southwest Airlines, which studied and improved upon products/services of pioneer companies within the airlines' economy segment. Likewise, Google leveraged the experience of other search engine providers (e.g., Lycos and WebCrawler) to become the dominant internet search engine. Other examples can be found in the cell phone industry where early entrants Nokia and Ericsson were overtaken by Samsung and Apple that now command the market. Waiting patiently and purposely allows the second-mover to observe and evaluate the market leader's mistakes or lack of market commitment.

There could also be some examples where frontrunners lack intellectual property protection or channels of distribution. In addition, research and development costs could be so significant that they leave the first-mover company in a weaker financial position. Finally, the first to enter the market firms could bring products with defects to market. These unidentified product defects could damage the firms' reputation to the point where customers will choose a competing product they believe will be free of defects and satisfy their needs.

Additional examples can be found in the retail sector where companies like Target learned what it could do better than industry leader Wal-Mart, and in the high-tech field where AMD Computers spent time and effort observing Intel and used that knowledge to gain a significant foothold in that market segment. Research by Rasmusen and Yoon (2012) confirmed that second-movers with better product knowledge or business skills can exercise second-mover advantage in order to earn greater profits for their company.

Although many experts proclaim speed as the key to market success, Gamble, Thompson, and Peteraf (2013) found that using mobile phones, for instance, was like other new technologies, slow to gain market acceptance. As a matter of fact, ten years passed before the global cell phone industry grew from 10 million users to 100 million users! Likewise, it took nearly ten years for broadband home use to reach 100 million users worldwide. Gamble et al. (2013) also reinforce the idea that the market penetration curve for numerous new products and business opportunities typically develops much later than businesses estimate. In summary, many other companies could possibly benefit from a waiting strategy and while actively waiting, take full advantage of business opportunities.

Sometimes being a first-mover works and sometimes it does not. Many examples can be found where second-movers exploit the first-mover's weaknesses with regard to introducing their product to the consumer or introducing a product of poor quality. Palser (2008) cites several examples in the high-tech field where new technologies were introduced, such as "live chats," podcasts, and news webcasts, which despite the buzz surrounding their launch and extensive

marketing efforts, never really caught on well. For example, according to Palser (2008), on an average day only about 1% of Internet users reported downloading a podcast.

Many new products fail. Cooper and Kleinschmidt (2011) examined new product failure rates in an American Marketing Association publication and report the following:

- “One in four new products fail while under development
- 33% of new products fail at launch
- companies spend 46% of new product development money on failed products
- 63% of senior executives report being “somewhat” or “very unsatisfied” with their firms’ new product development” (p. 1)

Other experts believe the new product failure rate could be much higher. With so much at stake in terms of market leadership and financial profitability, some firms choose not to be the market leader and instead, take the safer course of action by being good market followers. Uncertainty can almost always be an issue in business. According to Burkitt and Bruno (2010) Cincinnati based research firm AcuPoll reports that as many as 95% of new products each year fail.

Leveraging the second-mover advantage

Many business strategists advocate the value of “first-mover advantage”, being first to market with an innovative new product or technology. Other strategy analysts support another school of thought that proposes “second-mover advantage” in which organizations and companies that are followers benefit by learning from first-movers mistakes. These “second movers” in many cases are then able to surpass those companies that rushed to be first in the market.

Waiting with purpose—active waiting

As a second-mover, or close follower, an organization might choose to assume an active waiting strategy. Von Bergen and Bressler (2014) consider active waiting an important element of a successful executive’s management style. Active waiting, or what professionals in the health care industry refer to as “Watchful Waiting”, can be noted as a common practice in health care based on observing the patient carefully before making hasty medical decisions that could be detrimental to the patient. Many doctors believe that in some cases and certain medical conditions the favored strategy could be to employ active waiting, or “watchful waiting”. Although delaying treatment, health care workers can use this time to monitor patient progress toward recovery. There are many instances, for example, aching muscles or ear infections, where the illness could be minor and leave on its’ own. By using the “watchful waiting” approach, doctors can decide the best course of action in developing a treatment plan for the patient (<http://www.cfah.org>).

Hanft (2006) refers to those who start businesses as followers as “concept extenders”. According to Hanft, they are not traditional competitors, but rather savvy observers who patiently observe and track the development and growth of new products and services. At the opportune moment, they rise to action with their own improved version of the product or service.

The authors recommend active waiting in order to encourage management to pause thoughtfully and reflect upon the given issue or situation. Active Waiting is a process whereby the person purposely holds back from impulsively jumping in to making irrevocable

commitments of company resources (Minniti, 2006). However, active waiting requires a great deal of patience. It can often be difficult for persons to understand that they will complete more work by beginning slowly. But the patience of active waiting can be necessary to slow and prepare the mind, which otherwise will rush on to the next challenge. Hence, “active waiting is less a matter of time management than of emotional management” (Boice, 2000, p. 108).

Keinan and Bereby-Meyer (2012) offer another viewpoint where they point to the danger in avoiding taking action rather than taking action in certain critical areas such as avoiding cancer screenings (Howard & Huang, 2012) or not saving for retirement (Kogut & Dahan, 2012), and in addition, other researchers examined the potential dangers of inaction including the Status Quo Bias, which they define as the tendency for people to prefer the current situation rather than consider similar or potentially better options (Kahneman, Knetsch, & Thaler, 1991). Notwithstanding different terminology and speculative groundwork, these concepts involve an action approach or in other words, “making things happen.”

Strengths of the first-mover

First-movers can certainly maintain their market lead, but only when their strategy can be found superior to competitors. First-movers develop superior strategy by means of superior technology or quality, especially when supported by intellectual property protection. First-movers may also benefit from being first to market in the mind of the consumer, developing a brand and educating consumers about the new technology.

First-movers could also have an advantage when switching costs are high. Consumers would likely stay with the product purchased from the company they originally purchased from rather than assume the time, effort and expense of switching to the newer product even if the newer product can be considered superior. Gomez and Maicas (2011) examined this phenomenon and found switching costs *may* be a factor in first-mover success, however their research did not find a strong relationship between switching costs and first-mover success. Their research did, however, find first-movers to be market share leaders and be more profitable. The authors also point out that in those instances where the government requires licensing, licensing serves as a barrier to entry and could further support the success of first-movers.

Key aspects of second-mover advantage

Second-mover strategies usually are developed by copying the product of the industry pioneer. Often, second-movers offer products with slight changes as the “new and improved” version of the pioneering product. The second-mover produces that product at lower cost and then sells it to the customer for a lower price. This of course, can be problematic to both the market pioneer and second-mover because any market follower who can produce at a lower cost or market their product more effectively can steal market share. Hence, savvy second-movers should instead base their strategy on distinctive competencies such as superior quality, unparalleled technology, ease of operation, or additional consumer benefits.

The first key aspect to being a successful second-mover can be timing. Every market situation may be different but certain axioms hold true despite those differences. In some situations early market entry could be favored, while in other situations being a second-mover can be the better course of action. Some of the factors that help determine the better choice include size of market, overall market attractiveness, and cost of market entry.

Tran, Sibley, and Wilkie (2012) suggest Apple adopted a second-mover strategy due to earlier product failure with the Apple Newton. The significant financial losses of the Newton caused Apple to change strategy to become a second-mover or late mover with great success. Apple entered both the I-Pad and I-Pod products later into their market segments after learning from the mistakes of competitors and Apple became the market leader in each product category.

Hoppe and Lehmann-Grube (2001) found that when R & D costs are low, second-movers can produce an improved quality product at a lower cost than the pioneer firm. This study was based upon and extends the work of an earlier study by Dutta, Lach, and Rustichini (1995). When an improved product can be developed through advanced technology, a firm needs to determine whether there will be sufficient economic payoff as a result of increased sales in order to warrant the increased cost of the new technology.

In their book, *Fast Second*, Markides and Geroski (2004) point to a study by Francisco-Javier Olleros who researched industry pioneers of new technologies. His research found that many of the industry pioneers were unable to maintain market leadership. In fact, in many instances the company failed. Those industry pioneers of innovative products ranged from typewriters to jet engines and have considerably impacted our lives. Despite the technological capability of these firms, they were strategically incapable of maintaining industry leadership.

History provides numerous examples of successful second-movers as demonstrated in Table 1 below, and being a second-mover should not be considered a bad thing. In addition to being able to copycat the market pioneer's product and improve upon it, the second-mover can include newer, better technology and often do so without incurring high costs for research and development. In addition, the second-mover does not have to worry about a sullied reputation resulting from early market product failures and the resulting loss of customer goodwill. In the cola segment of the soft-drink industry, Pepsi-Cola still commands a 30% market share and finds greater growth and profit opportunities through snacks and other food products (<http://www.nasdaq.com/article/coke-vs-pepsi-by-the-numbers-cm337909>).

SUMMARY AND CONCLUSION

Choosing to be the market leader does not come without risk. While first-movers win the market in the short-term, sometimes second-movers prevail over the long-run. Business history provides many examples of costly product failures and often the pioneer firms' reputation suffers as well. Strategic planners need to thoughtfully consider all the implications of being the market pioneer and pushing corporate ego aside, in order to be able to make the right choice for the company and investors.

The numbers tell the story

Birger (2006) reports that FORTUNE magazine analyzed the stock returns of companies in ten industries and found that the industry leader returned only 2% in the preceding 12 month period, versus 21% for the second-movers. Poletti (2006) examined the effects of first, second and third market entrants. His research findings indicated that although first-movers benefit in the short-term, over the long-term late movers appear to benefit more. In addition, his research suggests this to be increasingly so.

Implications for managers

Strategy choice could be the most important decision senior executives make. Strategic direction determines the future success or failure of the company and the success of management. We encourage managers involved in the strategic planning and management aspects of their businesses to pause and reflect on their decisions so that they are in effect, doing “due diligence” with regard to their decision making.

Table 1: Market Pioneers and Market Followers

Pioneers-First to Market	Followers-Second-mover
Home Depot	Lowe’s Home Improvement Stores
Wal-Mart	Target
Intel	AMD
Coca-Cola	Pepsi-Cola

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