first mover advantage

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The timing of strategic moves may be critical for success as a result of the positive advantages accruing to first movers. Being first has a significant payoff when:

- it enhances the firm's image and reputation with buyers;
- early entry can tie up key raw material sources, new technologies, distribution channels, and the like, so as to shift the cost boundaries of a business or industry;
- first time operators build customer loyalty which is hard to dislodge;
- it constitutes a preemptive strike, which is difficult to copy.

These significant pay-offs exist when barriers to entry are created. There is no first mover advantage, where there are low or zero barriers to entry by competitors.

The use of IT has been a major mechanism for achieving long-term first mover advantages, which have been very difficult to overcome by follower competitors. Examples would include American Hospital Supply's ordering systems for hospitals, the American Airlines flight booking system, Merrill Lynch's Cash Management Account, and Direct Line Insurance's motor insurance operation.

For first mover advantage to materialize it is necessary to:

- redefine the business to use IT to fundamentally transform the existing way of operating, usually to provide a superior quality of service at a significantly reduced cost;
- be first to introduce new systems, including the necessary investment to achieve rapid growth to preempt the position of any followers;
- exploit first mover advantage to achieve customer loyalty to a brand position, which will remain after competitors attempt to follow.

However, being first is no guarantee of success. Indeed, it may involve much greater risk than being an early follower.

First mover disadvantages occur when:

- pioneering is expensive and experience effects are low;
- technological change is so rapid that early investments rapidly become obsolete;
- copying is easy and customer loyalty is fickle;
- skills and know-how of first movers are easy to replicate.

For example, first mover advantage did not occur in the UK mobile telecommunications industry, where the latest firm to join the market overtook the incumbents to lead the industry. First mover advantage is overcome by competitors when innovation can be bought in from suppliers servicing the whole industry. Changes in technology from analog, digital, and the different digital standards of 2G, 3G, and 3.5G meant that the incumbents' earlier investment in infrastructure were out of date by the time new players joined the market. Competitors entered the industry on a more level playing field. Competition was encouraged by the regulator's requirements for compatible networks, billing across networks, and telephone number portability. Technological skills were acquired through international suppliers. Human resources were available from other ICT industries.

It is, therefore, important to assess the critical timing for market entry and to insure that adequate resources are available and are deployed to preempt early competitive moves.

See also *advantage matrix*; *barriers to entry and exit*; *comparative advantage*; *competition*; *competitive advantage*; *differentiation strategies*; *time-based competition*

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