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Leveraging First-Mover Advantages in Internet-based Consumer Services

ONE OF THE MOST ENDURING STRATEGIC MANAGEMENT CONCEPTS is first-mover advantage. The face validity of first mover advantage is highly compelling with a great deal of anecdotal evidence often cited in the popular business press. The means by which first mover success is established are enormously intuitive: high levels of brand identification by being the first in the minds of consumers, the fact that inertia creates a dislike for change as long as consumer needs/wants are being met, and the creation of an emotional bond with consumers by being first to satisfy desires.

The vividness of heavily publicized stories of pioneering success can mislead one into thinking there is success by simply being among the first to market. But the fact is that first mover advantages are never a guarantee of durable success. In fact, industries with a fast pace of market evolution and technological evolution find first mover advantages are highly vulnerable and tenuous.[5] Moore's Law is propelling incredibly fast changes in all of the technologies used in internet-based consumer services. The pace of market evolution in internet-based consumer service is also fast, propelled by the whole concept of Web 2.0 as well as the relative ease of market entry and consumer openness to new, innovative, and even radical ideas. Therefore, attention must shift toward understanding how first-mover advantages can be leveraged as the market and technology evolves.

Figure 1 graphically outlines the stages of market evolution mapped onto the product/market life cycle. Once a firm is first to enter a new market they are immediately under review by potential rivals. In attractive markets other firms will soon enter. As rapid market growth occurs, new entrants emerge as a gold rush takes place. Market chaos ensues as rivals seek to create differentiation and grab market share. The next stage is market shake-out, where many firms drop out due to a myriad of reasons, most notably an inability to keep up with competitors, to effectively differentiate or create a meaningful value proposition, to manage cash flow and corporate retrenchments. As the market reaches maturity, the market leaders typically emerge.

Though first mover advantages offer no guarantee of durable success, firms can leverage first mover success into market leadership. Figure 2 provides a typology of tactics for firms to leverage their first mover advantages as their markets evolve. We consider three illustrative internet-based consumer service markets and how first movers in these industries leveraged their pioneering advantages into market leadership.

Google and Yahoo! - Search Engines

The 2006 Nielsen/NetRatings indicate Google has achieved a level of market dominance in the search engine

Figure 1. Stages of Evolution in Attractive Markets

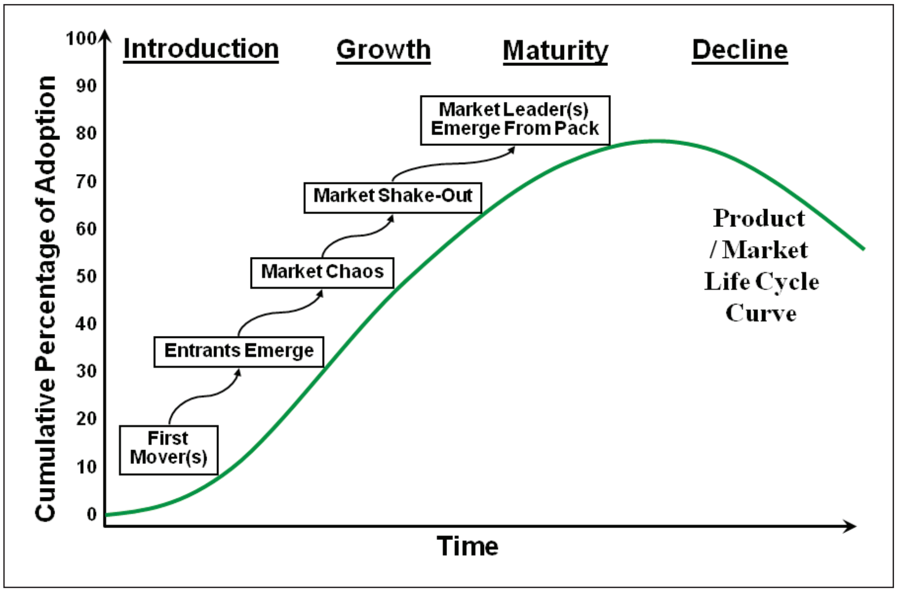
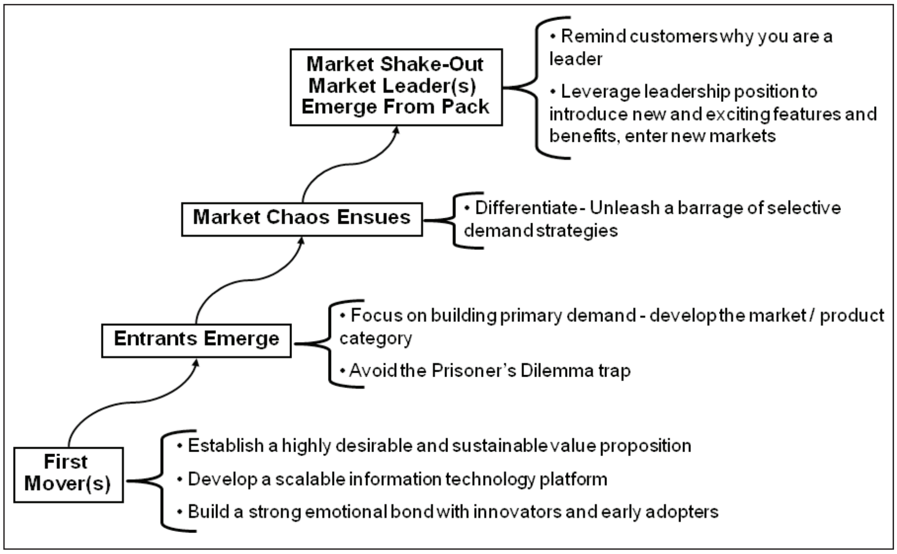


Figure 2. Typology of Tactics for Leveraging First-Mover Advantages as Markets Evolve



market with a 50% share, yet the older Yahoo! still maintains close to a 25% share. Google and Yahoo! used very different strategies to achieve differentiation. The value proposition of Google was to focus on best meeting the search and surfing wants of customers. By contrast, Yahoo! focused more on a personal portal model and grew less vulnerable to changing technologies.

Google's lead was gained through innovative products that represent new services or greatly improved services.[2] During the chaos period they offered a technologically advanced search engine and differentiated through continuous improvement by and adding special interest searches. Still, Yahoo! remains a fierce competitor with a very loyal customer base in spite of falling behind in technology when compared to Google. The "My Yahoo!" concept, where users can customize their home page, provides a strong emotional bond with millions of users worldwide. During the market chaos stage, Yahoo! retained some advantage by executing selective demand strategies less dependent on newer technology and unleashed numerous integrated marketing campaigns and sales promotions to deepen roots with consumers and core constituency groups.

In the market shake-out stage, Yahoo! continued to expand their product line by leveraging expected latent demand to create new markets where competition is initially irrelevant. This represents a blue ocean strategy to reach untapped market spaces.[3] Indeed, many e-commerce examples involve a blue ocean strategy where there are no initial competitors in sight. Yahoo! and Google both waded into these waters by offering services such as Yahoo! groups and music, and Google scholar and earth. The challenge in the maturity phase is to continually offer successful new features to maintain their advantages while keeping the loyalty of their consumer base.

Internet-based Retailing (e-Retailing)

Mass merchants account for the largest share of the e-retailing market. Consumer internet sales are impacted by brand recognition and whether the products exist in a commodity market or a differentiated market. Products in commodity markets are essentially identical across all sellers and buyers and buyers will typically choose products and services from the seller with the lowest total cost to include the price plus any search, taxes, and transportation costs. On the other hand, differentiated markets give sellers substantial profit opportunities because buyer preferences are heterogeneous for most product types. Here, buyers need to consider both the price and the characteristics of the corresponding product offering. Though sellers do have the opportunity to offer unique products, others can quickly duplicate many product lines and have them on the market quickly.

According to the latest data from Market Share Reporter, Amazon.com has the dominant share for internet retailing with 38%. Amazon has implemented many of the tactics in Figure 2. The initial value proposition of Amazon was extremely compelling: offering the ability to search through and choose from millions of book titles, something no brick-and-mortar store could ever do. Both the breadth and depth of offerings allowed a great economy of scale that others were hard pressed to gain by being followers in the market. As entrants emerged, Amazon smartly avoided the prisoner's dilemma by staying focused on primary demand (demand for the category) rather than selective demand strategies (demand for a specific brand).

In the chaos and shake-out stage, Amazon generally fended off later entry brick and mortar powerhouses in the mass merchant arena, such as Walmart, and also gained high sales in specialty markets, such as electronics. Amazon continually offers products and services that compete with other mass merchants, such as special shipping arrangements and credit card deals, but also is a leader in building an on-line community by incorporating customer opinions, providing space to sell merchandise, and directing searches to complementary products. In this case, Amazon disturbed the typical shopping mentality by changing the shopping experience from a more solitary model to a collaborative purchasing arrangement, where your opinions seemingly matter as much as your dollars. The strategic pattern and dependability of service made Amazon one today's most trusted retailers.

On-line Auctions

E-auctions are a service-dominated industry where consumers seek tangible cues as indicators of quality, ample information about the products offered, security in the purchase of items from unknown sources, and easy payments. Preserving an image as a quality provider of these services is even more important than for tangible goods.[1] Early actions to gain customers are crucial as network effects add value. The greater the number of customers using an auction, the more value to the company. In this way, Ebay has effectively mitigated the negative impact on first mover advantages from a turbulent market and technological environment since 1995. According to Market Share Reporter, Ebay enjoys a 90% share of the online auction market, up from 85% in 2003, and 69% in 2001.

Since a first-mover has a substantial advantage in being the most well known brand in a category, e-auction companies can expect to gain pioneering advantages despite the fast pace of the industry by maintaining a close eye on the consumers perception of service quality. The sheer volume of transactions and customers significantly leverages Ebay's advantages through a strategy of building effective network externalities. Moreover, pioneer status gives an additive effect on preference because consumer perceptions of those first-in-market and first experienced are more favorable.[4]

Lessons to Learn

There is little guarantee that any early entrant advantage will be sufficient to ensure a strong position as the market evolves. Early entrants are overtaken by competitors with more potent resources, recognized brands, better products, or enhanced capabilities. First movers do gain an edge, but one that must be sustained through constant attention to serving the customers in surprising ways.

The entrant must have a vision about the desires of the customer that are novel and exceed those of the current competition. Commodity products in the e-retailing industry utilizing e-commerce technology as a "marketing channel" have more difficulty establishing first-mover advantages. Any advantage gained must be maintained by capabilities of getting new and surprising ideas out on a regular basis in rapid fashion and building a buyer community that places value on consumer networks, broad product offerings, and a sense of identity. These capabilities must be put into action through constant releases that rely on breaking traditions with different products. These advantages will reside in understanding the customers rather than any product dependencies. C

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