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ADVANTAGES OF FOLLOWERS IN EMERGING MARKETS

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***Abstract:** As a consequence of globalization, companies consider the whole world as a potential marketplace. Throughout the 1990s, financial investors, corporate strategists and political leaders from industrialized Western countries have started to intensify their focus on emerging markets. Although proper entry timing into these markets is of prime importance, research until now has focused mainly on particular product sectors in the U.S. Studies on entry timing into emerging markets have claimed that early access to target markets is a desired situation since early entrants learn about the specifications of the market and adjust their marketing strategies accordingly. The present article argues, that being a second mover has many benefits, too, because many examples illustrate how a late entrant may compete successfully with early entrants by identifying mistakes first movers make and bringing distinctive advantages to the market.*

Keywords: Emerging Markets, First Mover, Follower, Competitive Advantage.

TAKİPÇİ FİRMALARIN GELİŞEN PAZARLARDAKİ AVANTAJLARI

***Özet:** Küreselleşmenin sonucunda, firmalar tüm dünya ülkelerine potansiyel birer pazar gözüyle bakmaya başlamışlardır. Bu bağlamda 1990'lı yıllardan itibaren, "yükselen pazarlar" olarak da adlandırılan ve oldukça cazip fırsatlar sundukları varsayılan bir grup ülke pazarı, daha dikkatli incelenmeye başlamış, bu yeni pazarlarda başarılı olmanın koşulları tartışılmıştır. Başarıyı etkileyen unsurlardan bir tanesi de, firmaların pazara giriş sırasıdır. Yaygın kanaate göre, yükselen bir pazara ilk giren firma olmak sayısız fırsatı beraberinde getirecek, geç kalan firmalar rekabet avantajı yitirecek ve pazar payı kaybına uğrayacaktır. Bu makalede yaygın görüşün aksi savunulmakta, pazara takipçi firma kimliğiyle girmenin avantajları üzerinde durulmakta, pazara ilk giren firma konumunda bulunmamasına rağmen başarılı olan ve bu başarıyı sürdüren firma örnekleri verilmektedir.*

Anahtar Kelimeler: Yükselen Pazarlar, Öncü Firma, Takipçi Firma, Rekabet Avantajı.

I. INTRODUCTION: EMERGING MARKETS

Throughout the 1990s, financial investors, corporate strategists and political leaders from industrialized Western countries intensified their focus on emerging markets [1]. These are markets expected to generate the majority of economic growth in the 21st century and include China, Indonesia, India, South Korea, Mexico, Argentina, Brazil, Poland, Turkey and South Africa [2].

Nakata and Sivakumar [3] suggest two defining qualities for emerging markets. Firstly, emerging markets are characterized by their agrarian economies of dual character, rapidly growing populations, low per capita income, poor infrastructure and lack of capital. Secondly, as Garten [1] points out, emerging markets are also new frontiers, and like all frontiers, they present opportunity and risk for the investor. Emerging countries cover large territories and comprise over half of the world's population, thus ensuring massive future demands for infrastructure and consumer goods [4]. Lastly, these countries have undertaken significant economic policy changes aimed at promoting faster growth within their regions [3]. Hence emerging markets, by helping to accelerate this growth, assume a political importance within these countries [2].

II. ENTRY TIMING INTO EMERGING MARKETS

The globalization of markets and businesses means that companies now consider the whole world as a potential marketplace [5]. It therefore becomes increasingly important to determine the ideal time to enter a newly opened market [6], [7]. Up until now, the discussion about proper entry timing into a specific market has focused mainly on particular product sectors in the U.S [8], [9], [10]. It is only recently that studies have started to examine the order of entry into international markets [11], [12], [13], [14], [15], [16], [17], [18].

III. Common Ideas About First Movers

The general belief on entry timing is that early access to target markets is a desired situation for most companies since early entrants get the opportunity to learn about the specifications of the market and adjust their marketing strategies accordingly [19]. Early entrants are commonly termed "pioneers", i.e., those firms that enter a market earlier than others, first in many cases. The term "first mover" is also used widely, though this does not refer necessarily to the first company to enter a market, but rather the first significant one. Amazon.com is an example of a first mover; while not the first online book seller it was the first significant one in that segment [20].

According to a number of scholars, first movers enjoy enduring advantages over late entrants[10] [21] [22] although the degree of success can vary depending upon the situation [23]. These are referred to as "first-mover advantages" and can present insurmountable obstacles for later entrants to overcome. First movers enjoy a monopoly situation before competition enters [18] and gain superior sales and profits [24] due to the large populations of the emerging markets [25]. The product of the first mover leads to prototypicality and a position as the innovator [3]. The first company gets strong brand recognition [24] also referred to as "mind share" [29]. Other first mover advantages commonly include technology leadership and the possibility of entering the 'learning curve' in product or process innovation [3].

IV. CURRENT RESEARCH ON FIRST MOVERS AND ITS WEAKNESSES

The benefits of pioneering (innovation and early market entry) have consistantly received significant attention [22] [30] [31] [32] [33] [34]. Literature on first mover advantage has increased especially over the last few years. In a Dow Jones database search, the term "first mover" appears 156 times in publications since 1998, but only 28 times from 1988 through 1993 [28].

According to critics of studies arguing the first mover advantage, many of these studies show a number of weaknesses. For example studies of the PIMS (profit impact of market strategies) database, which is one of the most commonly used databases in entry timing research, show that market shares over a large cross section of businesses are around 30 percent for market pioneers, 19 percent for early followers, and 13 percent for late entrants [35]. But these numbers need to be considered with care. For instance, the high sales results of first movers are very often only reflecting trial, not repeat purchase [37]. Secondly, PIMS asks the question about entry timing as to whether the firm is "one of the pioneers in first developing such products or services" [35]. This can lead to contradictory interpretations and responses, "developing the product" should not be a good enough measure alone to achieve first mover status for a company. The speed at which technical innovations are translated into profitable commercial ventures counts for more than purely inventing the product [36] Lieberman and Montgomery [9] further note that PIMS studies rely upon the self-reports of firms and that an abnormally large number of firms classify themselves as first movers.

Another weakness of studies showing that first movers enjoy a superior position in emerging markets is the "survivor bias" [10], meaning that these studies only analize the market shares of survivor first entrants and are consequently biased [18]. Including failing first movers would challenge the view that first movers are always the winners [35]. Also, asking consumers about first movers in a particular market segment may provide misleading information. Consumers are inclined to name "survivors", i.e., those brands they still see on the market, without considering whether they were actually the first. Asked who was the first computer game software company, for example, many consumers tend to say Electronic Arts because the brand is still in the market. In reality, this is the 41st company to enter the electronic game software market [38].

Market share and profitability are not the same. First-mover advantage can help a company build market share but it is not necessarily a guarantee of business success. Boulding and Christen [24] state that later entrants are more profitable over the long term than the early entrants that gain initial advantages but lose them over the years. Golder and Tellis [42] find that in only 4 of the 50 product categories studied is market leadership sustained over long periods of time. Very rarely are the pioneers of the past still the leaders of today [43]. Liebermann and Montgomery [9] suggest that research should examine the profitability aspect of firms entering emerging markets and not only marketshare figures.

V. COMING SECOND

Emerging markets do not only offer opportunities to newcomer companies, they are also risky environments [1]. The first firm entering an emerging market is the first one to encounter this risk, so being first at any price will not always guarantee success [37]. By taking time to consider the different opportunities and challenges of emerging market environments late movers can experience certain advantages of their own.

Being second gives the company a chance to modify and adjust the product or service offering according to market demands. A late mover can benefit from the market education the first mover has already carried out and learn from their mistakes. Financial risk and chance of failure can be reduced by the "wait and see strategy".

Surprisingly, cases of followers that have implemented successful strategies resulting in market leadership have not been dealt with in academic and management literature to a sufficient extent. Looking at existing and potential second mover advantages has many benefits. Firstly, because not every product can be the first to enter a market [44] and secondly, because many examples illustrate how a late entrant may compete successfully with an early entrant [45]. The personal computer, wine cooler and video game markets are all examples where pioneers have lost their markets to late movers. The case of the VHS format is another example of a follower product that surpassed the first-mover product, Betamax, by elaborate marketing [52].

Bevan's study of the UK potato crisp industry [63], Flaherty's study of the semiconductor market [64] and Millar et al.'s study of the consumer and industrial sectors [65] even found a negative correlation between order of entry and market share. In other sectors this observation also holds true. In 1998, two films with the same subject matter (the collision of the earth with a meteorite) were released. "Armageddon" proved much more popular than "Deep Impact", even though the latter had been released two months earlier and had had a stronger start [28].

The number of second mover companies that have perfomed better than the pioneer in their market is almost as large as the list of pioneers, hence the importance of analysing the examples of successful late entrants.

VI. CAPITALISING ON FIRST MOVER ERRORS

Often, the first mover losing its position in the market is due to the mistakes made by the first mover itself. First movers may become too secure about their own knowledge and established routines and fall into the so-called "competency trap" [54] or "incumbent inertia" [27] failing to improve their product and service quality [54]. Or they may become so focused on being first they lose interest in the consumer [37]. Sony, for example, attempted to remain the technology leader in the VCR market and pushed the other manufacturers to follow their lead with Betamax, while refraining from sharing its manufacturing capacity and capabilities with other manufacturers. Then late entrants JVC and Matsushita joined forces with other manufacturers to develop the VHS standard, which allowed them to become more innovative companies [66].

Freedman [29] claims that first movers very often lose sight of the fundamentals of their business, cost management is such an example. In their rush to be the first to set up their businesses, e-commerce companies spent six times that of established catalog companies to fulfill orders and customer service costs were eight times as high [29]. This may be the opportunity for a follower to step in and take away market share and profit from the pioneer either by an improved version of the product, more efficient cost management (price), more efficient customer oriented marketing (promotion) or better distribution.

VI.1. Product Considerations

A better or more cost efficient product is one of the areas where the second mover can force an advantage over the first mover.

One way of surpassing the product performance of the pioneer is to look carefully at the industrial set-up of the pioneer. Although a first mover may set up a manufacturing plant which fully serves a particular market and leaves little room for profitable competitors [51], later entrants can exploit the investments the first mover made in solving engineering and manufacturing problems [52]. First movers may acquire scarce critical resources such as specialized production equipment, but the largest payoffs may go to the firms that manage to start successful mass production and mass distribution earlier [18], aided by the fact they are already familiar with the technology before committing resources to it [3].

Examples of succesful follower products are numerous in almost every market. In the IT industry, for example, the Osborne portable computer and the Gavilan notebook lost the race against much more succesful late movers because of mistakes in the product area [38]. Gavilan was a portable computer with an eight-line LCD screen, an innovative touchpad and an optional printer that could be attached to the back. These attributes were seemingly sufficient to keep the first mover in a superior position, however, Gavilan's laptop wasn't PC-compatible and had technical problems. Also, Osborne, having introduced Osborne I, the first successful portable computer, soon lost its first mover position because it was unable to introduce its promised improved version soon enough [38].

Many people think that Netscape was the first company to introduce the Internet browser. Only few people remember that it was actually a company called Mosaic to enter the browser market years before Netscape [38]. Microsoft, on the other hand came in much later; the firm is frequently second to market with a product but beats its competitors by out-featuring and outlasting them [40], [41]. Often, the product introduced to the market by the first mover is incomplete [46]. Cottrell and Sick [26] see this as an opportunity for followers to catch an early entrant either with increased marketing expenditures or production of the finalized version of the product. The first mover in the video game console business was Sega's Dreamcast. However, Sega's consoles didn't support DVD-ROMs, allowing Sony and Nintendo to win the battle for the market by producing consoles that did [47].

Another strategy for late movers entering emerging markets where patents provide little protection [24] is to copy products with minor changes [48]. IBM had decided upon an open systems approach in its personal computer development, their aim being to make it easier for software firms to write application programs that would run on its PCs. However, rival hardware firms easily produced machines that looked close to the IBM PC but sold at a lower price [49].

There are further examples of second mover product success in the service sector. Universal life insurance was the first completely new product in the life insurance industry for over 20 years. However, the first firms to introduce life insurance in the early 1980s performed less well than firms who waited and introduced similar products only after regulatory questions were answered [47].

The consumer goods categories are full of examples of succesful late entrants. Whereas the laundry detergent market was pioneered by Dreft, now the brand Tide dominates. The second mover Eveready now holds a superior position in the flashlight battery market over first mover Bright Star [42]. A look at the freeze-dried coffee market shows that Maxwell House's Maxim was the first one to pioneer this product category but Nestle's Taster's Choice overtook Maxim [34] and now has a market share amounting to 36 % in one of its important emerging markets, Korea [50].

VI.2. Price Considerations

First movers can also be beaten on price by second movers. There are numerous cases where the first mover determines an acceptable price level for its products and the follower enters the market when an averagely accepted price equilibrium has established itself. Later entrants lower their price by better management of cost-drivers, reducing research and development and promotional costs, and timing their entry as the market becomes better educated and more price sensitive [45]. In the moving business, for example, it is often seen that late movers learn the first mover's quote and then simply undercut this quote to get the business [51].

Some companies are known for their strategy of moving only after the prices of the first companies have become public knowledge. Matsushita will wait for Sony, JVC or another other innovative consumer-electronics firm to introduce a new product and then enter the market six months to a year later with a similar but lower-priced version [18]. In Egypt, for example, Sony attempted to maintain the same quality image and price level it enjoyed in developed markets and hence positioned itself at the top of the market. However, by upholding high prices Sony was attacked by later movers LG and Samsung which built up huge sales volumes in Egypt [53]. Another example in the zipper industry is the follower YKK, which discounted the most popular colors and styles and beated the first mover Talon, which was insisting on an average pricing policy. YKK could produce low cost zippers in its focused factories in Japan and has become today the dominant global player in its business [27]. Often, first movers unknowingly invite second movers into the market they themselves dominate. They are so preoccupied with their first mover success they don't perceive the need to improve their costs or price [54]. An example of this "competency trap" was the case of Ampec company which lost its market due to improper cost management. Ampex pioneered the video recorder market in 1956 and enjoyed a monopoly situation for several years although the product itself was limited and the price of one recorder was about USD 50,000. Ampex did not make any efforts to lower costs and prefered instead to focus on audio products, computer peripherals and other diversifications. Three of Ampex' followers, JVC, Matsushita and Sony, on the other hand, saw the mass-market potential for the video recorder and increased their research efforts to satisfy the mass market. Within a short time period, the price of a competitive product came down to first $5,000 and then later to $500. From 1970 until the mid 1980's, video sales went up from $2 million to almost $2 billion at JVC, from $6 million to $3 billion at Matsushita, and from $17 million to almost $2 billion at Sony. At Ampex, total sales increased, but only from $296 million to $480 million [35].

One typical first mover mistake is to rely on switching costs, i.e., those relating to consumers who have grown accustomed to a particular brand or product (the first mover's) and refuse to change their preference and try later brands. Cady [55] claims that switching costs get lower as buyers become more knowledgeable about alternative products and consquently the first mover may lose its position. In industries with high technological uncertainty (e.g.,computer components), switching costs may be especially low and followers can gain cost advantages [56].

VI.3. Promotion Considerations

Very often, potential customers in emerging markets are not aware of the existence of a particular product or product category. First movers have to educate the market about these new concepts and unknown products. In a country where the concept of "Pay TV" is unknown, the first mover will have to spend large amounts of money on advertising and other marketing elements to explain what pay TV is [57]. When late entrant firms join the market, they find ready target groups identified by first movers together with rules and processes already in place [43]. They can use this public information campaign for free [57], benchmark the practices of first movers, plus identify and exploit niches that earlier entrant companies have overlooked which is called the "free ride effect". American Express, for example, waited until Diners Club had educated the customer and was known to have cash flow problems before entering the market [45]. Also, the consumer education efforts of Starbucks has lead to a situation whereby today, later movers can sell their coffee products to consumers that have been previously informed.

The promotional campaigns of the pioneer can work in favour of the follower for other reasons. As well as benefiting from pioneers' market education, later entrants can also wait and watch the outcomes of earlier campaigns to decide upon the correct approach. Google watched AltaVista spending millions on unsuccesful marketing campaigns and costly makeovers and so decided instead to focus on its core competency, the ability to do fast searches of large numbers of pages and tie advertising to search content [29]. Bomar was another example of a company, that engaged in extensive advertising to enhance consumers' awareness of the new electronic calculator technology, which increased the sales of Texas Instruments and other followers [27].

Some late movers intelligently bypass the first mover image earlier companies have built in the minds of customers. Miller Lite, for instance, was not the first light beer on the market, but it positioned itself as the first light beer by using the word "lite" in its brand name [58].

VI.4. Distribution Considerations

As a result of macroeconomical insufficiencies in emerging markets, companies may be faced with major challenges in the distribution of their products. Phone networks, postal services, electric power and paved roads are often not as developed as a foreign investor might wish and these deficiencies in the infrastructure can severely hamper commercial activities [3]. As a consquence of these distribution bottlenecks, the costs of getting the product to the end-user are increased [59], [60]. Sometimes, entering into cooperative action with local distributors is forced upon the new entrant by law [62].

By watching early reactions in the target market and taking more time to plan for manufacturing and distribution, followers can achieve better information about buyer preferences [52]. It may be an advantage for followers to wait until the infrastructure develops sufficiently to support the service they intend to offer to the market [3]. Stepping into the market at the right moment can reduce the costs associated with ground-up experimentation in that country [25]. A follower can also develop a new distribution channel, as Avon did by selling cosmetics through the door-to-door channel instead of traditional sales channels [61]. Successful followers often control key marketing channels as it was the case with EMI, which was first to develop the CT scanner but lost to GE in the marketplace because EMI did not have a marketing base in the medical field [27].

VII. CONCLUSION AND COMMENTS

The general belief on entry timing is that early access to target markets is a desired situation for most companies due to "first-mover advantages", like enjoying a monopoly situation, gaining superior sales and profits, the product of the first mover leading to prototypicality and a position as the innovator.

However, current research on first movers shows considerable weaknesses. The studies of the PIMS database very often only reflect trial, not repeat purchase. Further, PIMS studies rely on self reports in which an abnormally large number of firms classify themselves as first movers. These studies also only analize the market shares of survivor first entrants and are consequently biased.

As many examples from different sectors show, first-mover advantage can help a company build market share but it is not necessarily a guarantee of business success. By taking time to consider the different opportunities and challenges of emerging market environments, late movers can experience certain advantages of their own and benefit from reduced risk due to their "wait and see strategy". Often, first movers become so secure about their position that they fall into the "competency trap" where they begin to lose interest in the customer or even lose sight of the fundamentals of their business. Stepping in at the right moment, developing a better product (also by looking at the limitations of the pioneer's product) and adverstising more than the pioneer, followers can take away market share and profit from the pioneer. Especially if the pioneer is small and lacks resources or has become complacent, stepping in as a follower might be the right strategy to pursue.

Those followers that can identify the mistakes first movers make, that know how to hold customers and bring distinctive advatages to the market they enter can eventually even become market leaders in emerging markets.

VIII. LIMITATIONS AND RECOMMENDATIONS FOR FURTHER RESEARCH

The present article aims to reduce a gap in the literature with respect to the entry timing decisions of follower companies in emerging markets. Examples of various industries and sectors are given to show that carefully planned entry decisions can bring late entrants into superior market positions, resulting even in market leadership.

Like also most of the articles published on the follower advantages – and there are not too many of those – also the present article shows examples from different industries. A possible future direction might be to focus on specific industries like f.i. FMCG, pharmaceuticals, service etc. and compare the advantages followers have in each and every one of those industries. Another direction could be the comparative analysis of follower advantages in two different emerging markets like f.i. Poland and Turkey by including institutional theory perspectives in the discussion of entry timing.

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