First Mover or First Loser?

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Author's note: Illustrates that speed without value is wasted time and energy

Despite annual sales of $35million, first mover Pets.com shut its doors on November 7, 2000. Why? Buying pet food and accessories over the Internet did not offer customers substantially more value than the neighborhood pet store. Therein lies the first lesson for creating a successful first mover strategy: Being first isn't enough: you've got to deliver significant, incremental value over current alternatives. The importance of this lesson is underscored by the early herd behavior of today's drowning dot.coms. Far too many pursued acquiring customer "eyeballs" with a California Gold Rush mentality, without providing significant value. With skyrocketing customer acquisition costs and low retention rates, it's no wonder so many failed.

No one can say Johnson and Johnson didn't understand the importance of value when they introduced the arterial stent, a wire mesh tube that when inserted after balloon angioplasty props arteries open. Introduced in 1994, the stent quickly generated sales of over $1 billion and commanded 90% of the U.S. market. Yet three years later, Guidant introduced a next generation product and within 45 days, stole 70% of the market. Lesson number two – first mover advantage creates a preferred position, not an entitlement for future success. If you don't take advantage of early customer feedback and internal learning, first movers become first losers. Contrast Johnson & Johnson's experience with Chrysler's continued leadership in mini-vans. Chrysler has used it's earlier customer experience to introduce next generation innovations such as dual sliding, power doors.

Does this suggest that one should opt for being a fast follower? No thank you. First movers have the potential to generate enormous wealth by writing the rules that transform markets and in some cases, entire industries. Without competition, they not only corner the market, they get the best channel partners and suppliers. In some industries, first movers can slip in before regulators understand the significance of the market and limit options. When a first mover establishes and builds on a strong position as Palm did with its elegantly simple handheld computer, it can even withstand the clout of a competitor such as Microsoft. Despite powering millions into promoting its Windows CE operating system for handhelds, Microsoft has not been able to gain significant share against Palm.

Clearly certain markets are more conducive to first mover strategies than others. Rapidly changing markets with short product and technology lifecycles are especially ripe for first mover advantage. Likewise, brand new markets or categories such as the mini-van can also be attractive. On the other hand, service industry first movers face a more difficult challenge sustaining initial advantage since services can be quickly copied by competitors.