Principles of first mover and late mover theory

When companies need to decide whether to go ahead with a brand new un-marketed product and create it or review a similar product already in markets from other companies, they adopt the principle of the first-mover theory or the late-mover theory to make their decision.

First Mover Theory & Late Mover Theory: A Comparison

Introduction

Companies across the country are consistently being faced with tough decisions regarding business moves to make that will launch them forward in a new competitive market. There are two types of marketing strategies that companies look into when they want to diversify into a different product market. The first approach is called the ‘ first mover’ theory and the second is called the ‘ late mover’ theory. Both of these strategies have strengths and weaknesses that can either solidify or act as a detriment to the company’s entry into the market.

First Mover Theory Advantages

The potential advantages of the first mover theory are numerous. For one, the corporation has the ability to attain exclusive company-product association. It can also find success through the effects of networking and see a rise in consumption as demand grows. First mover theory can help the company determine economies of scale and it can also lock the consumers up into the market, creating an exclusive customer base before additional competition enters. Several examples of success of this first mover theory are three products by the same manufacturer. The first was the Apple Ipod, Apple Iphone and Apple Ipad. Also included in this success story is E-Bay, the first to bring buying and selling into an online auction forum.

First Mover Theory Disadvantages

There are potentially just as many risks or disadvantages to this theory as well, and they must be taken in consideration before evaluating whether the company can afford to launch. One fallback is that this method does not always ensure long-term profits. Another risk is that competition has time to analyze market trends for the first product and capitalize on its weaknesses to strengthen response to their own product. Competitors can also specifically tailor the new product to consumer wants based on demographic surveys. The biggest risk of all is uncertainty of the market and whether or not the product will even be a success in the first place. Some examples of companies who suffered at the expense of corporations who capitalized on the late mover theory include Chux Diapers, who were surpassed by Proctor and Gamble's Pampers. America Online is another company who fell by the wayside after taking a completely different spin on internet browsing. Other examples include web browsers such as Viola, who even pre-dated America Online. Most recently to succumb to the late mover theory was MySpace, recently surpassed in the social networking arena by Facebook.

Late Mover Theory Advantages

Like the first mover theory, there are many advantages of the late mover theory. By implementing this strategy, one advantage the company has is the ability to perfect the product before putting it on the market. The companies can also use demographic surveys to help them know how to tailor their product to their audience, which can maximize sale of the product. In addition, the late mover theory can also use its knowledge of the product to reduce production cost, making it more cost effective for the consumer. Also, it can market and develop the product to appeal to a wider array of consumers than that for which the original product was designed. There are a lot of prime examples of companies who have seen success by implementing the late mover theory. Some include Gillette, Facebook, Pampers disposable diapers, and Internet Explorer. All of these corporations have capitalized on companies who took the initial risk of implementing the first mover theory.

Late Mover Theory Disadvantages

As with anything, there are also potential risks and disadvantages. Because it is a late-comer into the market, it does not have established brand association. If proper research into the market is not done, it can also be attempting to capitalize on a dying product in general. A significant risk of late mover theory is creating a product that can potentially alienate customers if added features are superfluous rather than necessary. Late mover theory can also prove to be detrimental if timing into the market is not done correctly which can cause the product to suffer from the problem of uncertain necessity.

Some of the companies who failed by this policy were Hummer, and their attempt to capitalize on what they did not realize was the dying trend of suburban utility vehicles. Two dichotomies, Pepsi Cola and Nestle Crunch are examples of both the success and failure of late mover theory. While they continue to do well on the market, neither Pepsi Cola nor Nestle Crunch has outperformed sales or the brand association that Coca Cola and Hershey’s Chocolate bar have developed within their customer base. The same can be seen in the case of McDonald’s vs. Rally’s.

Conclusions

While late mover theory, by history, seems to be a safer method to guarantee profit success, it does not have the benefit of brand association that first mover theory establishes for the company. If the corporation eventually hopes to create brand loyalty and increase their revenue in that manner, first mover theory may genuinely be the key to success. However, if the company's goal is to be come a competitive organization in the consumer market and capitalize on different trends with instant revenue gratification, then late mover theory might be more beneficial. The final decision is contingent upon assessing the target demographic and results goal that the company is striving to achieve.