

wbs

WARWICK BUSINESS SCHOOL
THE UNIVERSITY OF WARWICK

For the Change Makers

Dr Scott Dacko

Warwick Summer School Communication and Marketing Market Entry Timing Strategy

Dr Scott Dacko

Is Pioneering or Following better?

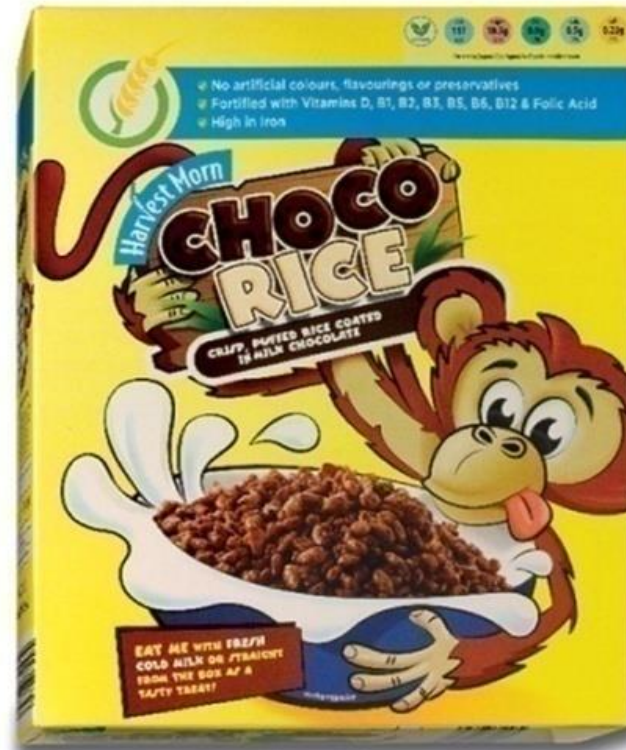
For a Snack Product?



For a Shampoo?



For a Breakfast Cereal?



For a Shower Product?



For a Biscuit?



For a Body Spray?



For a Laundry Detergent?



MARKET ENTRY TIMING STRATEGY

Objectives:

- Be able to identify and suggest potential pioneering advantages and follower advantages
- Be able to evaluate the influence of organisational and product characteristics on the competitive response time of follower firms
- Be able to evaluate a business scenario requiring a competitive response time decision

PIONEERING AND FOLLOWING IN THE TABLET DETERGENT MARKET

Lever Brother's Persil vs.
Procter and Gamble's Ariel



PIONEERING AND FOLLOWING IN THE TABLET DETERGENT MARKET

Lever Brother's Persil vs.
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European market for laundry
products = £5.5 billion

1% increase in share = £55 million

PIONEERING AND FOLLOWING IN THE TABLET DETERGENT MARKET

UK Market Share at time of tablet launch:

Lever Brother's	30%
Procter and Gamble	50%

PIONEERING AND FOLLOWING IN THE PORTABLE MUSIC PLAYER MARKET

- Apple's iPod vs. Microsoft's Zune



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74% Market Share in 2009



9% MS in 2007, 2% MS in 2009

IS PIONEERING OR FOLLOWING BETTER?

INDUSTRY	PIONEER CO	DOMINANT CO
Low Calorie Beer	Miller's Lite	Miller's – 60% market share
Disposable Nappies	Pampers	Pampers – holds the largest market share
Running Shoes	Adidas and Puma	Nike (late entrant)
Personal Stereos	Sony Walkman	Sony – 50% market share

IS PIONEERING OR FOLLOWING BETTER?

INDUSTRY	PIONEER CO	DOMINANT CO
Integrated Business Software	SAP AG	SAP – 34% market share
Books Online	Book Stacks Unlimited	Amazon.com
Online Auctions	B2C auction sites	E-bay
Computer Spreadsheets	Software Arts, Inc.'s VisiCalc	Microsoft Excel

EXPLAINING FIRST MOVER ADVANTAGES -- AN ECONOMIC VIEW

- ❖ First movers create barriers to entry
- ❖ Effect of entry barriers -- lengthens the lead time
- ❖ Lead time enables the first mover to benefit:
 - Initially -- no competition
 - After the new entrants –
further down the experience curve

The SAP logo is displayed in white, bold, sans-serif capital letters on a dark blue background. The logo is positioned in the bottom right corner of the slide, partially overlapping a blue triangular graphic element.

EXPLAINING FIRST MOVER ADVANTAGES -- THE BEHAVIORAL VIEW

- ❖ First mover communication is more effective
- ❖ First movers obtain reputational advantages
- ❖ Purchase and trial leads to more reluctance to switch



MARKET CONTINGENCIES

Economic

- ❖ Uncertainty of product demand
 - lower resource commitments
 - reduced cost advantages due to scale
- ❖ Small scale operations are efficient
 - scale economies decrease
- ❖ Industry relies heavily on advertising and marketing
 - early consumer exposures to advertising is even more beneficial
- ❖ Technology changes quickly → legal protection decreases and experience advantage decreases

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amazon.com.



MARKET CONTINGENCIES

Behavioural

- ❖ Product be can easily evaluated before purchase
→ purchase and trial benefits decrease
- ❖ Cost of evaluating a product and making a purchase mistake are low
→ switching costs decrease
- ❖ Consumers need to invest in special, related assets
→ switching costs increase

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CONCLUSIONS ABOUT PIONEERING VS. FOLLOWING

- Faster entry into industry does not guarantee absolute competitive advantage
- Market pioneering provides opportunities for gaining advantages
- Magnitude of first-mover advantages depends on the degree of fit between the environmental opportunity and the first-mover's skills and resources
- Market pioneering is not a strategy that is appropriate for all firms
- Organizational reality: firms are more often a later entrant than a pioneer



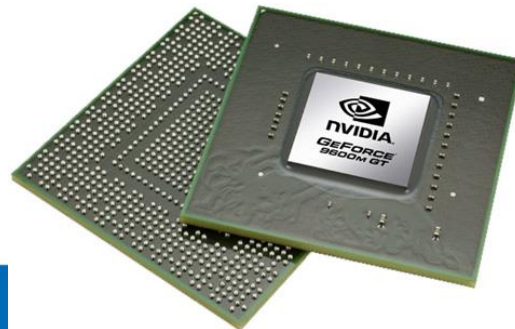
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UNDERSTANDING MARKET ENTRY TIMING OF THE NON-PIONEERING FIRMS

Objectives

- ❖ Become familiar with the problem of understanding organisational response time
- ❖ Better understand the communication and information processing perspective in explaining organisational responsiveness
- ❖ Recognise the value of managers' adopting a communication and information processing perspective

FOLLOWER FIRMS IN THE LOW FAT FOOD MARKET

<u>Company Name</u>	<u>Time of market entry (No of months after major pioneering entry)</u>
Heritage Wafers	68
Mr. Bitts	57
Frankly Naturals Bakers	49
Falcone's Cookieland	40
Christie Cookie Co.	28
Archway Cookies	21
Heaven Scent	15
Health Valley Foods	6

STRATEGIC MARKETING QUESTIONS

What affects a follower firm's market entry timing?

Can communication theory explain follower firm market entry timing?

How can follower firms be more efficient and effective in the process leading to new product market entry?

Does follower market entry time make a difference in profitability?

DEFINITIONS

Market adoption – introduction of a firm's first new product into the market

Adoption stage – A step in the process of market adoption, e.g., awareness, interest, evaluation and adoption

Related products market – a product market different from a firm's currently adopted markets yet having some similarity in product characteristics

Pioneering firms – any of the first several firms to enter a new market and ending with the first major firm to enter

Follower firms – All firms that have adopted a product market after the pioneering firms have adopted the same market

THEORY

COMMUNICATION AND INFORMATION PROCESSING THEORY

-- Sensing, Processing, Deciding, Action

PROCESS OF ADOPTION INNOVATIONS

-- Awareness, interest, evaluation, adoption

THEORY

MARKET ORIENTATION

PRODUCT-RELATED CHARACTERISTICS

- New product radicality
- Related product success

ORGANIZATION STRUCTURE CHARACTERISTICS

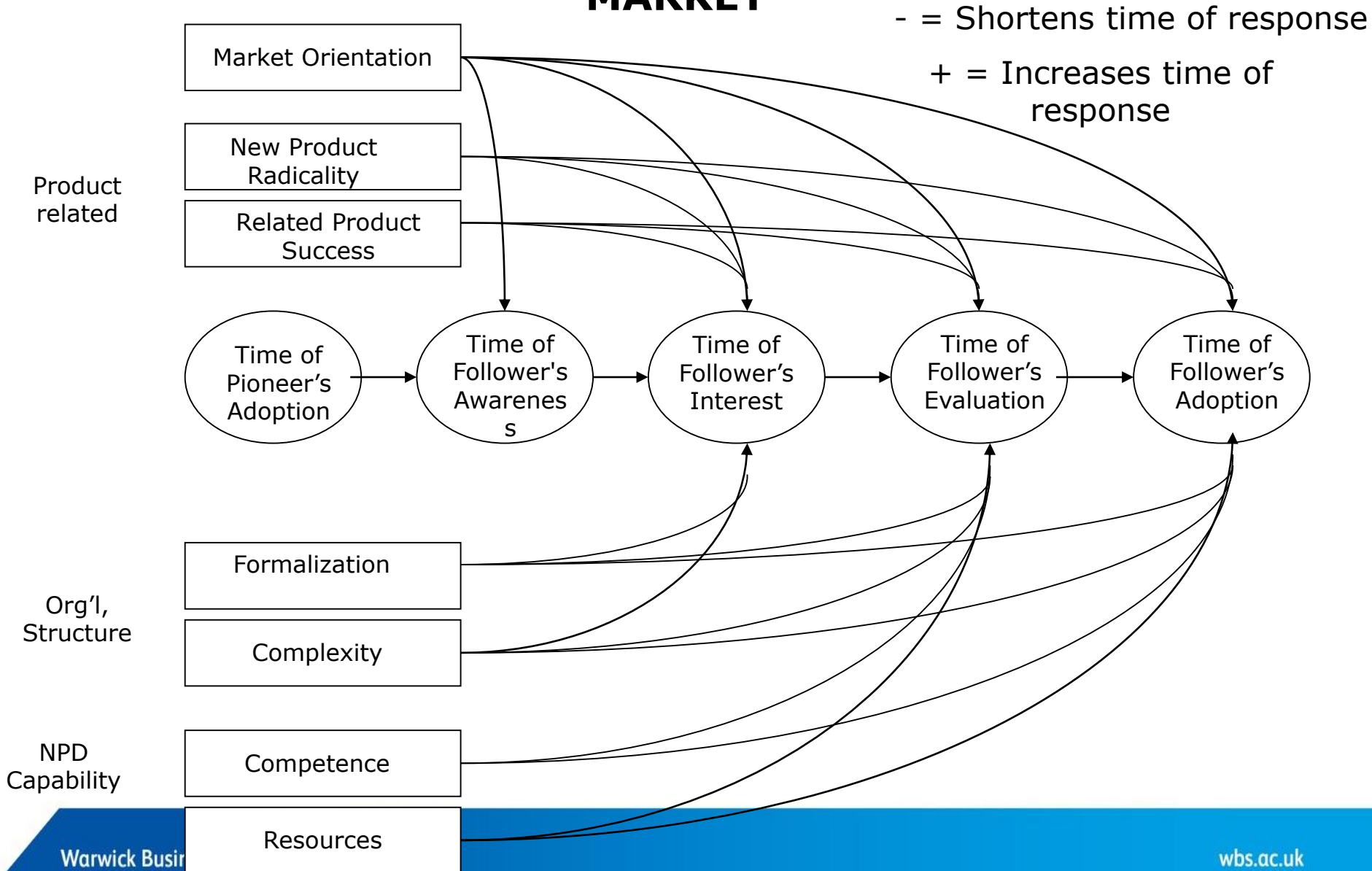
- Formalisation
- Complexity

NEW PRODUCT DEVELOPMENT CAPABILITY

- Competence
- Resources

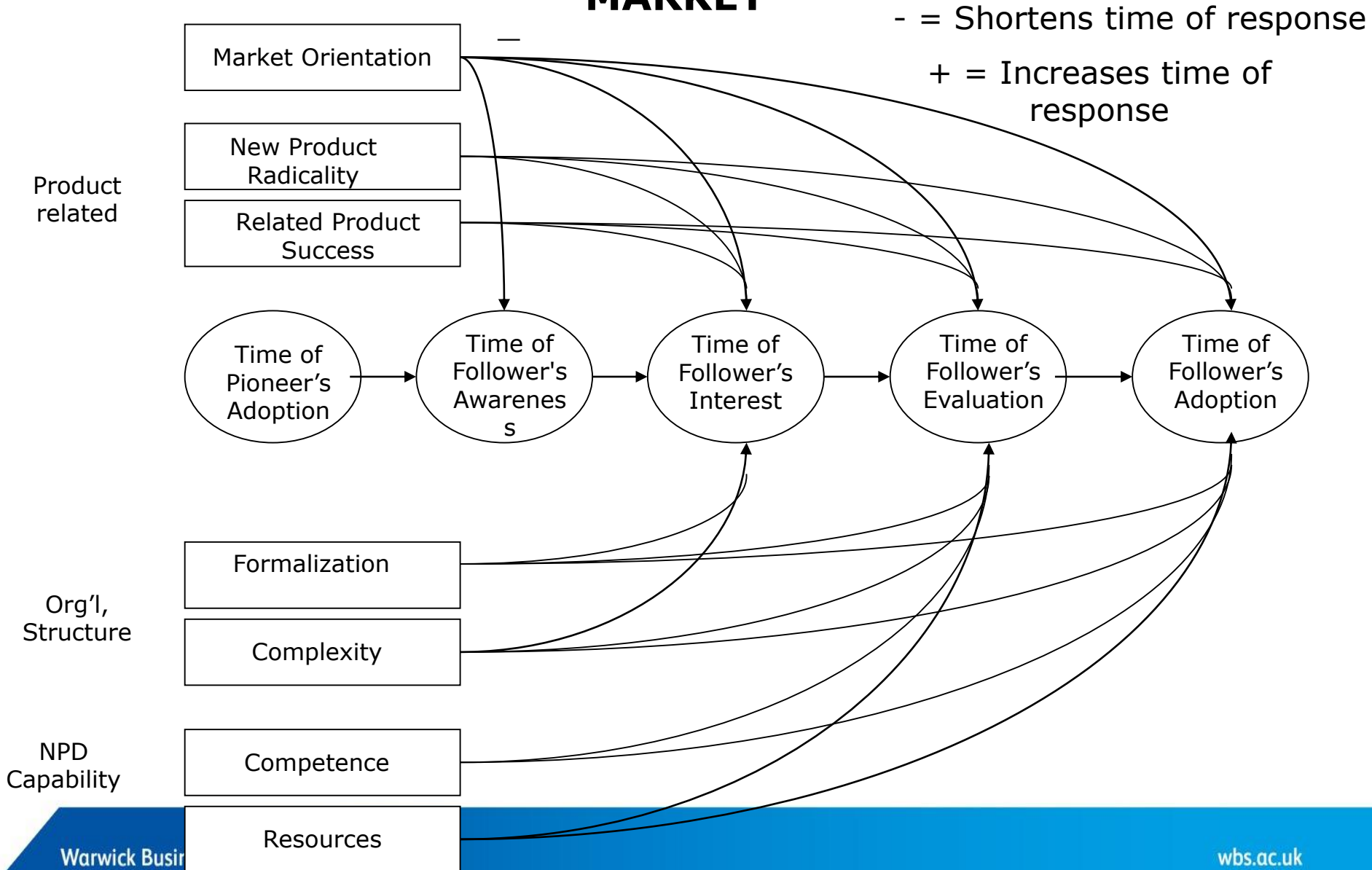
A MODEL OF

TIME OF FOLLOWER FIRM ADOPTION OF A RELATED PRODUCT MARKET



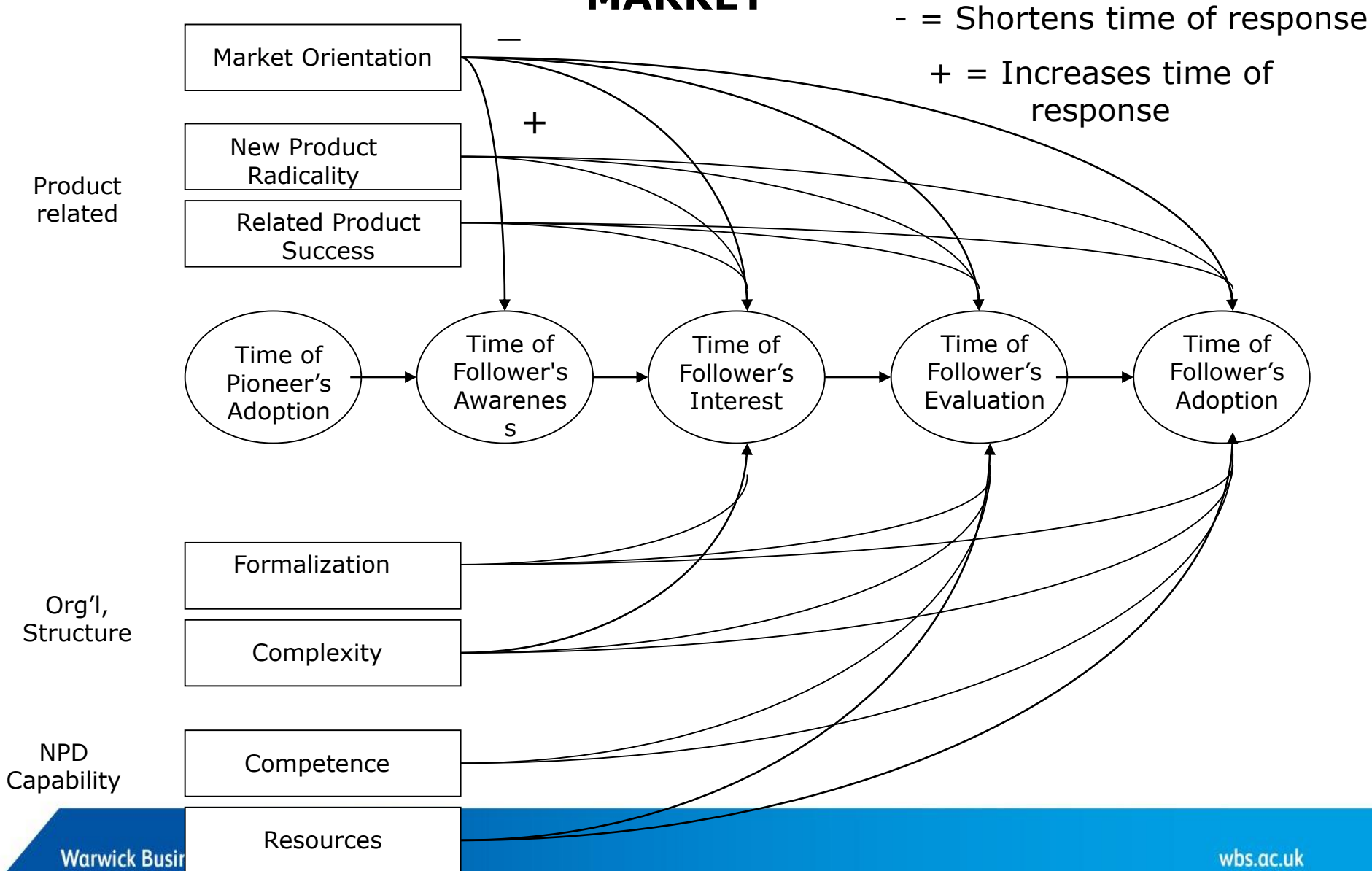
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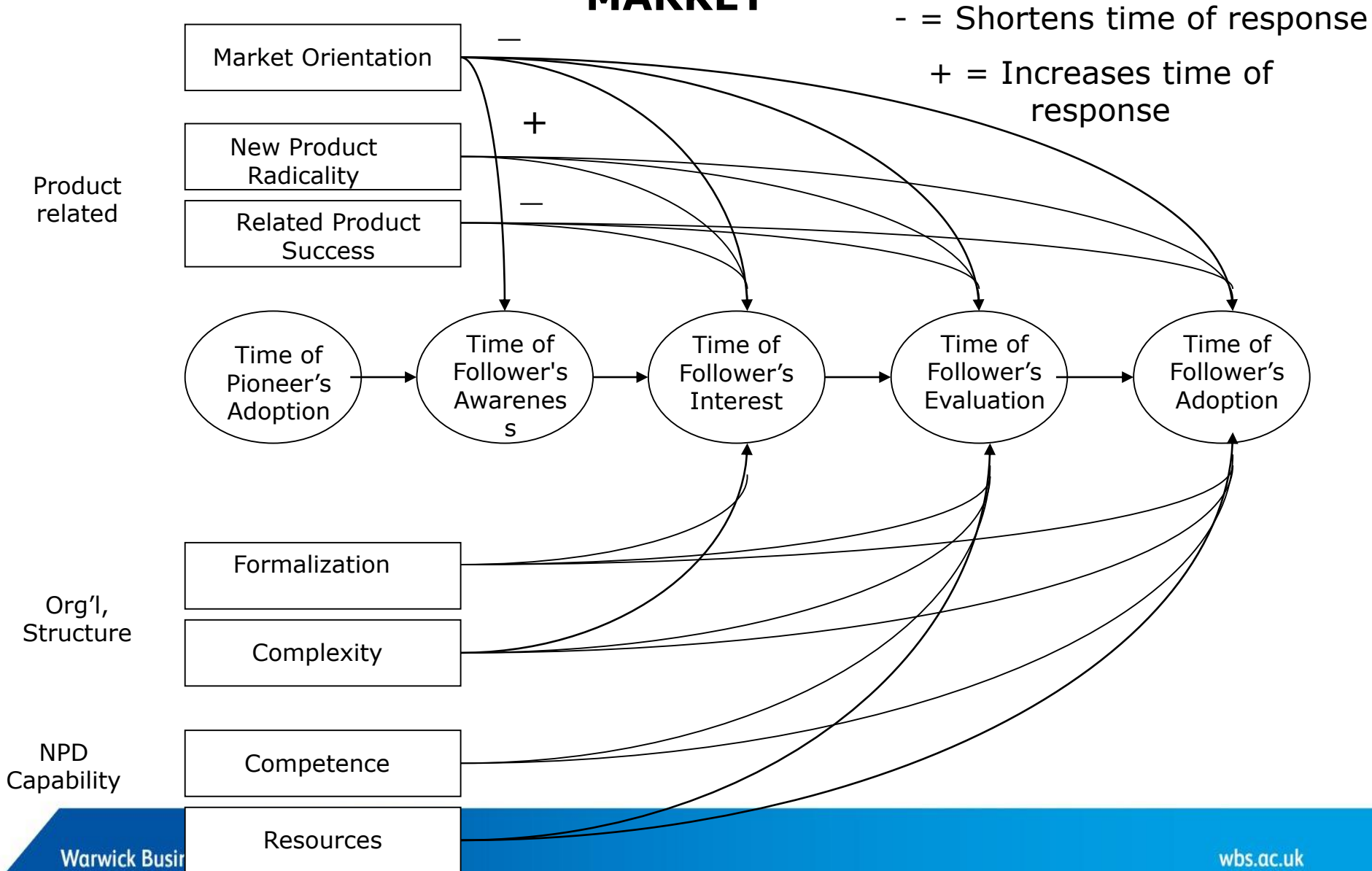
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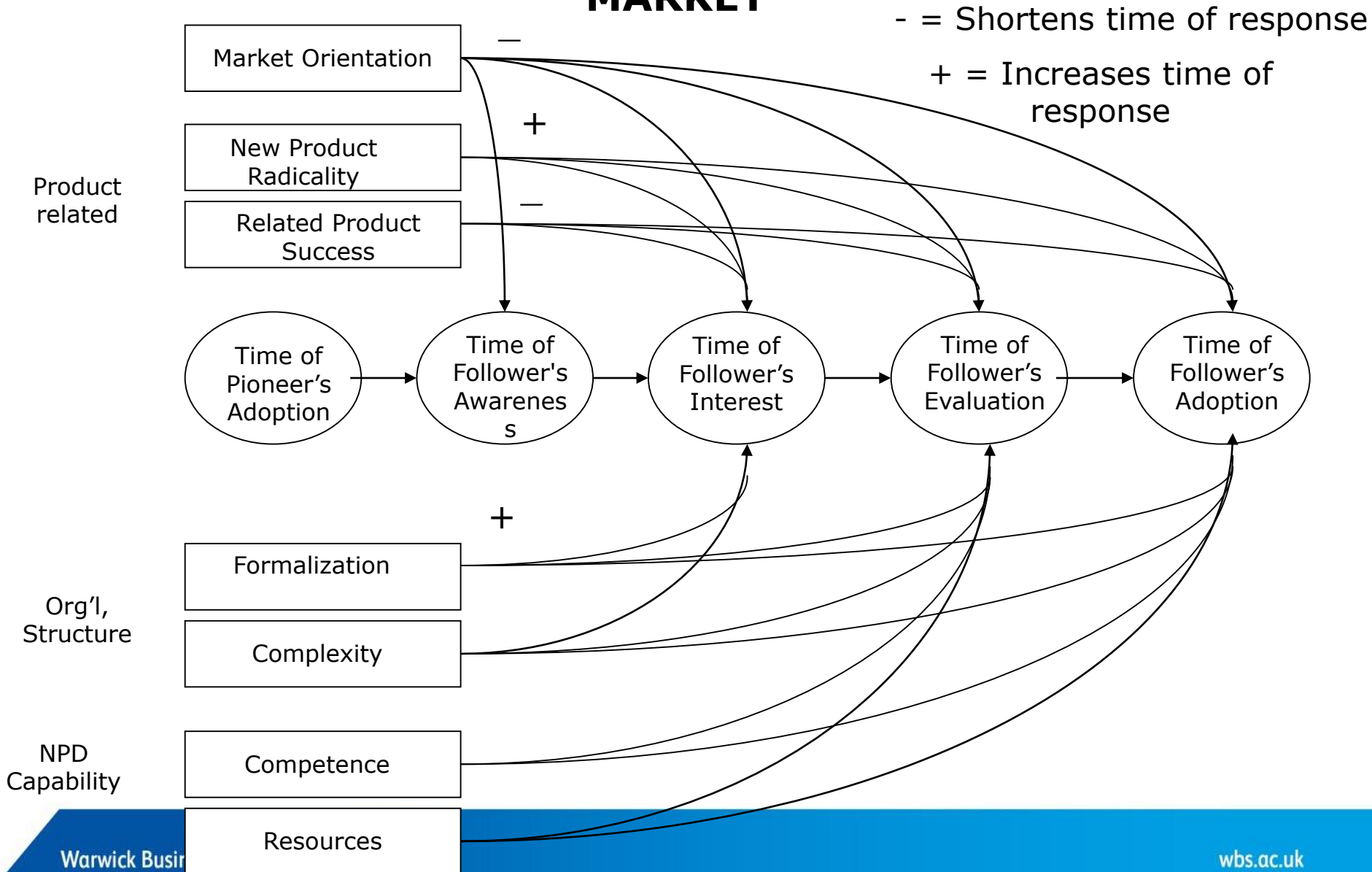
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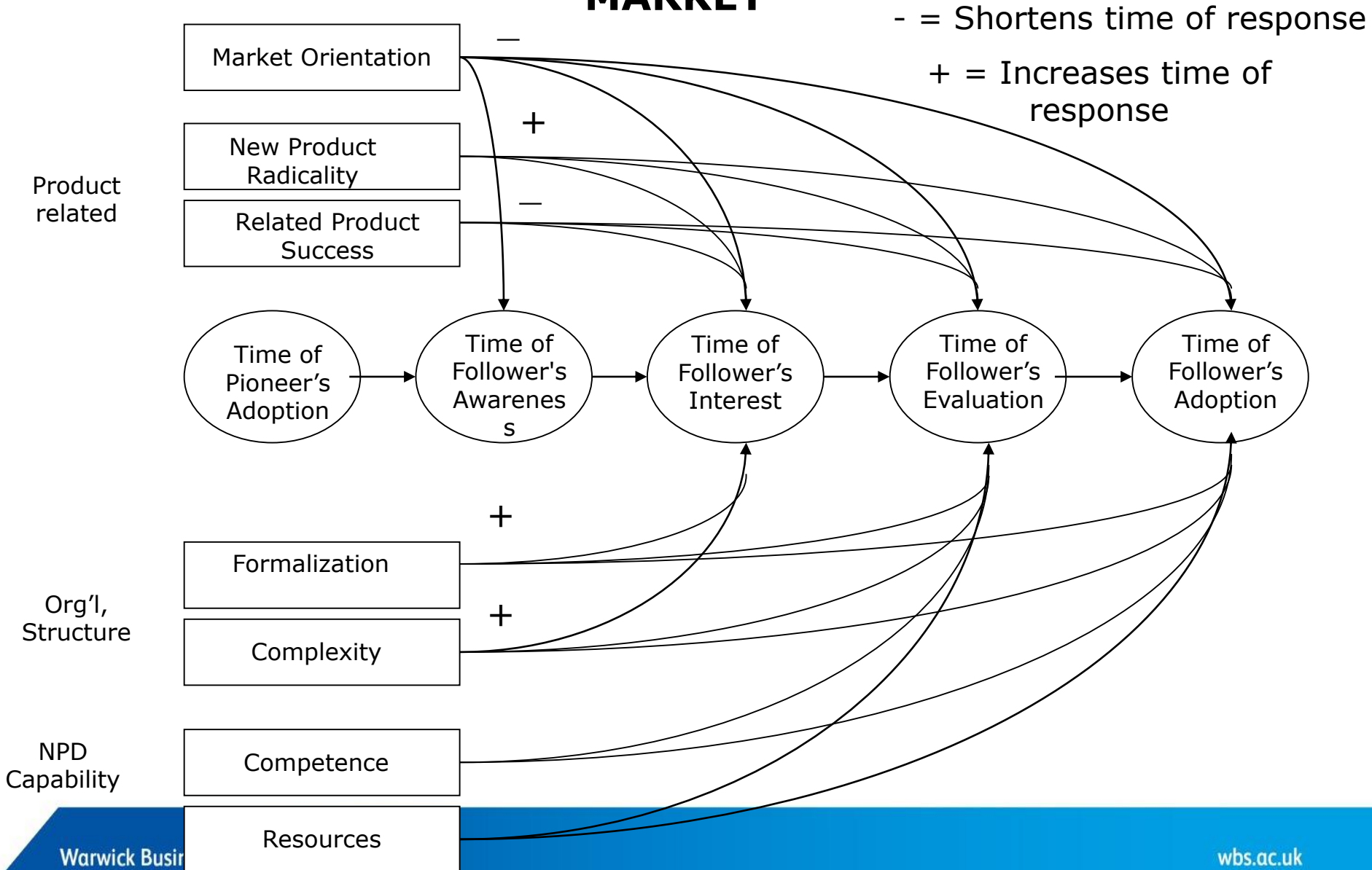
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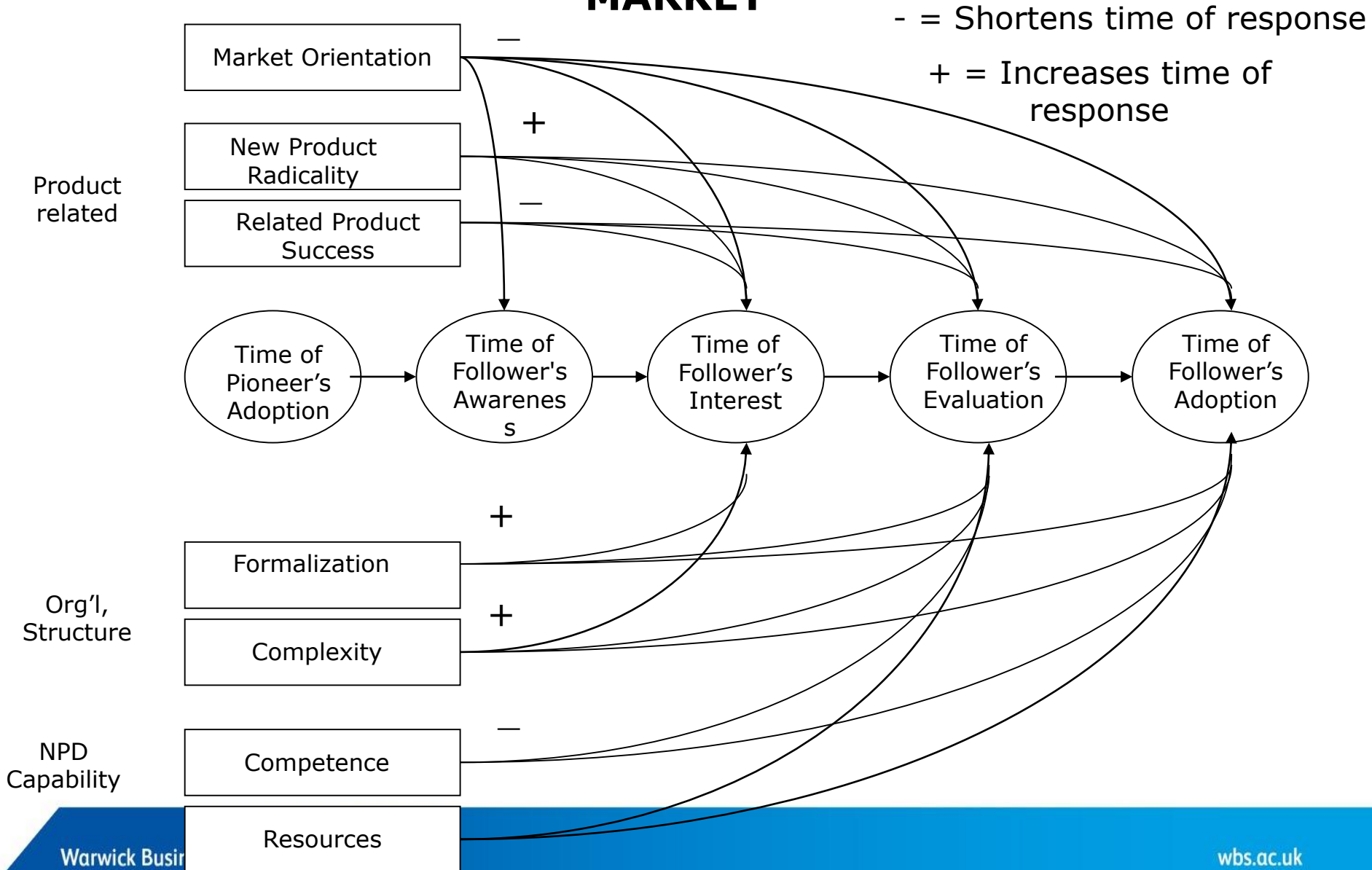
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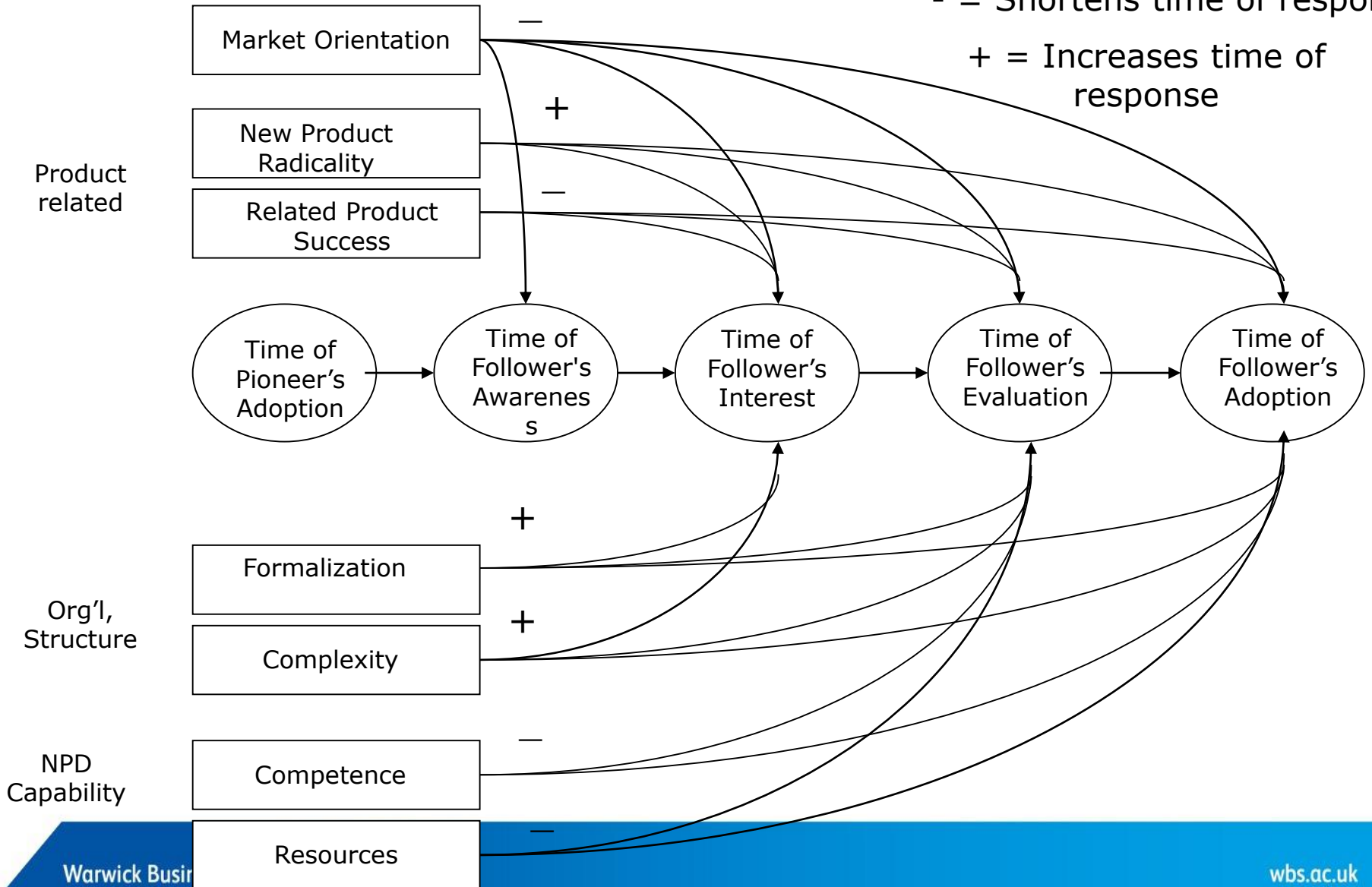
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FOLLOWER CHARACTERISTICS

MARKET

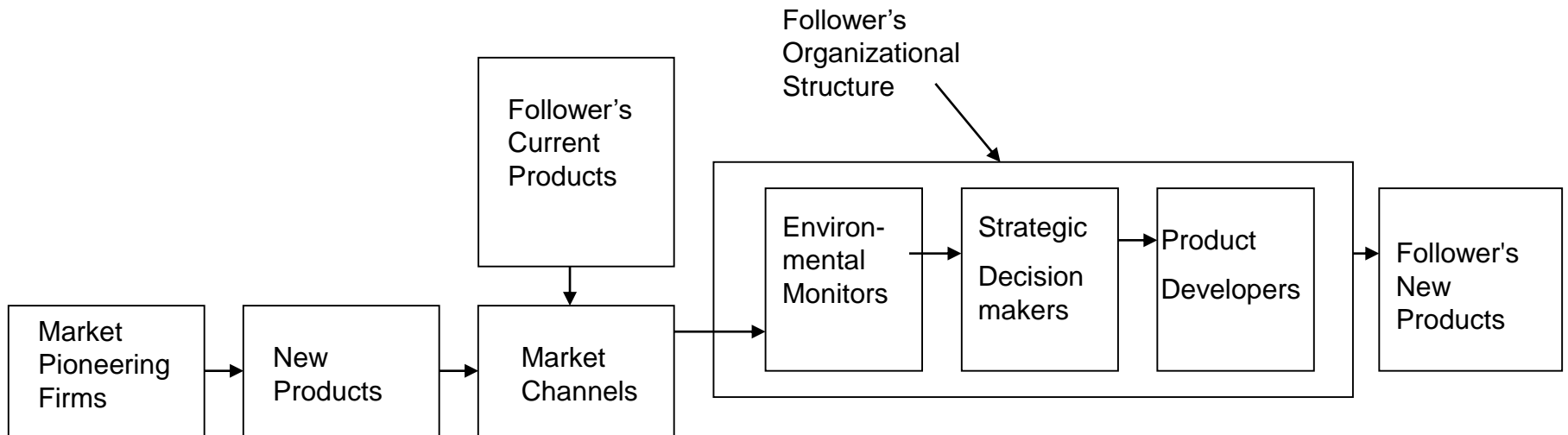
- = Shortens time of response

+ = Increases time of response



THEORY

General Conceptualization of Follower Firm Adoption of a Related Product Market



MARKET ENTRY TIMING AND PROFITABILITY

- Earlier time of adoption is significantly related to:
 - Greater short-term profitability
 - Greater long-term profitability

WHY DO FOLLOWER FIRMS ENTER RELATED PRODUCT MARKETS WHEN THEY DO?

Firms vary in the time they enter related product markets as a result of having greater or lesser abilities to

Initially receive,

Internally transmit with sufficient quality,

and ultimately respond to the flows of information
concerning the related product market

MANAGERIAL IMPLICATIONS

Once a major pioneer enters a related market, sooner follower firm entry is often more profitable than delayed entry.

A communication-theoretic perspective provides greater managerial focus on strengthening weak “information links” in the organization

-- including its:

- Market orientation (e.g., customers, competition)

- Product influences

- Organisational structure

- New product development capabilities

MANAGERIAL IMPLICATIONS

Specifically, follower firms need to:

- create new search mechanisms for identifying more radical new products earlier
- Avoid myopia in letting current product characteristics define “new market opportunity”
- Continually strive to simplify and informalise the organizational structure for faster responsiveness

MANAGERIAL IMPLICATIONS

Follower firms need to:

- Commit to developing the critical resources and competences if committed to continuous new product development
- Seek a better understanding of competitive entry timing behaviour in terms of their organizational and product characteristics