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its market position. A **competitive response** is a strategic or tactical action the firm takes to counter the effects of a competitor's competitive action. A **strategic action** or a **strategic response** is a market-based move that involves a significant commitment of organizational resources and is difficult to implement and reverse. A **tactical action** or a **tactical response** is a market-based move that is taken to fine-tune a strategy; it involves fewer resources and is relatively easy to implement and reverse. When engaging rivals in competition, firms must recognize the differences between strategic and tactical actions and responses and develop an effective balance between the two types of competitive actions and responses.

Nokia Corp. has completed a number of strategic actions in the past few years, none of which has more potentially significant possibilities than does its partnership with Microsoft. As part of this relationship, Nokia has adopted Windows Phone as its principal smartphone strategy. In announcing this collaboration, an official noted that "Nokia and Microsoft will combine our strengths to deliver an ecosystem with unrivalled global reach and scale."<sup>52</sup> This relationship may be at least in part a strategic response to Apple's success. An example of a recent strategic action taken relative to Nokia is Samsung's decision to locate its newest research and development center in Finland, Nokia's home market. Some analysts thought this action signaled even stiffer competition for Nokia, a firm that has now lost its market leadership position in the sales of smartphones to Samsung in its native country.<sup>53</sup>

Walmart prices aggressively as a means of increasing revenues and gaining market share at the expense of competitors. In this regard, the firm engages in a continuous stream of tactical actions to attack rivals by changing some of its products' prices and tactical responses to respond to price changes taken by competitors such as Costco and Target.

## 5-5 Likelihood of Attack

In addition to market commonality, resource similarity, and the drivers of awareness, motivation, and ability, other factors affect the likelihood a competitor will use strategic actions and tactical actions to attack its competitors. Three of these factors—first-mover benefits, organizational size, and quality—are discussed next. Second and late movers are considered as part of the discussion of first-mover benefits.

### 5-5a First-Mover Benefits

A **first mover** is a firm that takes an initial competitive action in order to build or defend its competitive advantages or to improve its market position. The first-mover concept has been influenced by the work of the famous economist Joseph Schumpeter, who argued that firms achieve competitive advantage by taking innovative actions<sup>54</sup> (innovation is defined and discussed in Chapter 13). In general, first movers emphasize research and development (R&D) as a path to develop innovative goods and services that customers will value.<sup>55</sup>

The benefits of being a successful first mover can be substantial.<sup>56</sup> Especially in fast-cycle markets (discussed later in the chapter), where changes occur rapidly and where it is virtually impossible to sustain a competitive advantage for any length of time, a first mover can experience many times the valuation and revenue of a second mover.<sup>57</sup> This evidence suggests that although first-mover benefits are never absolute, they are often critical to a firm's success in industries experiencing rapid technological developments and relatively short product life cycles.<sup>58</sup> In addition to earning above-average returns until its competitors respond to its successful competitive action, the first mover can gain (1) the loyalty of customers who may become committed to the goods or services of the firm that first made them available, and (2) market share that can be difficult for competitors to take during future competitive rivalry.<sup>59</sup> The general evidence that first movers have greater survival rates than later market entrants is perhaps the culmination of first-mover benefits.<sup>60</sup>

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The firm trying to predict its rivals' competitive actions might conclude that they will take aggressive strategic actions to gain first movers' benefits. However, even though a firm's competitors might be motivated to be first movers, they may lack the ability to do so. First movers tend to be aggressive and willing to experiment with innovation and take higher yet reasonable levels of risk, and their long-term success depends on retaining the ability to do so.<sup>61</sup>

To be a first mover, the firm must have readily available the resources to significantly invest in R&D as well as to rapidly and successfully produce and market a stream of innovative products.<sup>62</sup> Organizational slack makes it possible for firms to have the ability (as measured by available resources) to be first movers. *Slack* is the buffer or cushion provided by actual or obtainable resources that aren't currently in use and are in excess of the minimum resources needed to produce a given level of organizational output.<sup>63</sup> As a liquid resource, slack can quickly be allocated to support competitive actions, such as R&D investments and aggressive marketing campaigns that lead to first-mover advantages. This relationship between slack and the ability to be a first mover allows the firm to predict that a first-mover competitor likely has available slack and will probably take aggressive competitive actions to continuously introduce innovative products. Furthermore, the firm can predict that as a first mover, a competitor will try to rapidly gain market share and customer loyalty in order to earn above-average returns until its competitors are able to effectively respond to its first move.

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Firms evaluating their competitors should realize that being a first mover carries risk. For example, it is difficult to accurately estimate the returns that will be earned from introducing product innovations to the marketplace.<sup>64</sup> Additionally, the first mover's cost to develop a product innovation can be substantial, reducing the slack available to support further innovation. Thus, the firm should carefully study the results a competitor achieves as a first mover. Continuous success by the competitor suggests additional product innovations, while lack of product acceptance over the course of the competitor's innovations may indicate less willingness in the future to accept the risks of being a first mover.<sup>65</sup>

A **second mover** is a firm that responds to the first mover's competitive action, typically through imitation. More cautious than the first mover, the second mover studies customers' reactions to product innovations. In the course of doing so, the second mover also tries to find any mistakes the first mover made so that it can avoid them and the problems they created. Often, successful imitation of the first mover's innovations allows the second mover to avoid the mistakes and the major investments required of the pioneering first movers.<sup>66</sup>

Second movers have the time to develop processes and technologies that are more efficient than those used by the first mover or that create additional value for consumers.<sup>67</sup> The most successful second movers rarely act too fast (so they can fully analyze the first mover's actions) nor too slow (so they do not give the first mover time to correct its mistakes and "lock in" customer loyalty). Overall, the outcomes of the first mover's competitive actions may provide a blueprint for second and even late movers as they determine the nature and timing of their competitive responses.<sup>68</sup>

Determining whether a competitor is an effective second mover (based on its past actions) allows a first-mover firm to predict that the competitor will respond quickly to successful, innovation-based market entries. The first mover can expect a successful second-mover competitor to study its market entries and to respond with a new entry into the market within a short time period. As a second mover, the competitor will try to respond with a product that provides greater customer value than does the first mover's product. The most successful second movers are able to rapidly and meaningfully interpret market feedback to respond quickly yet successfully to the first mover's successful innovations.

Home-improvement rating site Angie's List was founded roughly two decades ago. More than two million U.S. households are using the service to gain information about the quality

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The Angie's List website is displayed on a computer screen. The consumer-review website has spawned a number of second movers that attempt to improve on Angie's List features and target narrow market segments.

of 700-plus services (plumbing, electrical work, and so forth) provided by local companies. Angie's List members submit reviews at the rate of over 60,000 per month. The firm's success is suggested by the fact that it generates roughly \$220 million in annual revenue.

The fact that "a growing number of websites are taking aim at the giant home-improvement rating site" suggests that second movers are responding to Angie's List as a successful first mover.<sup>69</sup> Each of the second movers offers a slightly different service to customers, trying to improve on the quality, breadth, and/or depth of what Angie's List offers. HomeAdvisor.com, for example, differs from the first mover through its exclusive focus on home projects. Houzz.com provides users with an archive of home improvement and design images as well as access to an extensive list of articles concerned with decorating and remodeling. Of course, Angie's List is

responding to the challenge of second movers through several actions including an effort to improve the method through which members seek bids from professional providers.

A **late mover** is a firm that responds to a competitive action a significant amount of time after the first mover's action and the second mover's response. Typically, a late response is better than no response at all, although any success achieved from the late competitive response tends to be considerably less than that achieved by first and second movers. However, on occasion, late movers can be successful if they develop a unique way to enter the market and compete. For firms from emerging economies this often means a niche strategy with lower-cost production and manufacturing.<sup>70</sup>

The firm competing against a late mover can predict that the competitor will likely enter a particular market only after both the first and second movers have achieved success in that market. Moreover, on a relative basis, the firm can predict that the late mover's competitive action will allow it to earn average returns only after the considerable time required for it to understand how to create at least as much customer value as that offered by the first and second movers' products.

### 5-5b Organizational Size

An organization's size affects the likelihood it will take competitive actions as well as the types and timing of those actions.<sup>71</sup> In general, small firms are more likely than large companies to launch competitive actions and tend to do it more quickly. Smaller firms are thus perceived as nimble and flexible competitors who rely on speed and surprise to defend their competitive advantages or develop new ones while engaged in competitive rivalry, especially with large companies, to gain an advantageous market position.<sup>72</sup> Small firms' flexibility and nimbleness allow them to develop variety in their competitive actions; large firms tend to limit the types of competitive actions used.<sup>73</sup>

Large firms, however, are likely to initiate more competitive actions along with more strategic actions during a given period.<sup>74</sup> Thus, when studying its competitors in terms of organizational size, the firm should use a measurement such as total sales revenue or total number of employees. The competitive actions the firm likely will encounter from competitors larger than it is will be different from the competitive actions it will encounter from smaller competitors.

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