First-mover advantages in emerging markets; do early birds catch the worm or not?

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Research interests

- **First mover advantages studies**


- **Entry mode studies**


Corporate governance studies


FMA in the marketplace

Step 1.
You discover a new product, process or business model

Step 2.
You apply it in the market place

You become a first mover!

And will enjoy everlasting wealth and profit….

Perhaps?
First mover advantages and disadvantages

**F-M Advantages**
- Quantity setting ability
- Short run monopoly rent
- Preemption of resources
- Moving down the cost/learning curve
- Pioneer related marketing advantages

**F-M disadvantages**
- High uncertainty
- Low imitation cost
- Technological leapfrogging
- Incumbent inertia
The quantity setting Pioneer

\[ \text{MR}^P = ? \]
Market conditions in emerging/transition economies

- The foreign entrant tend to have superior technological, managerial and marketing capabilities versus local incumbents (Ownership advantages)
- High growth rates in emerging/transition economies
  
  Low competitive pressure and higher consumer conversion rates
First mover advantages in emerging/transition economies

- **F-M advantages**
  - Quantity setting ability
  - Short run monopoly rent
  - Preemption of resources
  - Moving down the cost/learning curve
  - Pioneer related marketing advantages
  - Networking advantages

- **F-M disadvantages**
  - High uncertainty
  - Small market size/high growth rates
  - Institutional and infrastructural cost related disadvantages
  - Incumbent inertia/mistake prone
The value of waiting

Option value

Time

Pioneer's option value
Entry competition

- The act of entry is essentially the deployment of existing products and competences in a new market setting
- Hence the option to enter is more than likely shared with other potential entrants
Entry timing choice under competition

Option value

Pioneer’s option value

Followers option value

Time

T^P

T^F
First Mover Advantages in Central and Eastern Europe

A comparative analysis of performance measures
Study design and motivation

- Seek to address the effect of competition on the ability to accrue superior rent from early entry
- Based on subsidiary level survey data from Lithuania, Poland and Hungary
Why Central and Eastern Europe?

1. The countries opened up to FDI around the same time
   - A clear cut-off date
   - Improved cross country comparability/ generalization

2. Close proximity to some of the main sources of FDI (Western Europe)
   - We can expect the level and intensity of FDI to be high enough to satisfy an assumption of competitive foreign market entry
The basic hypothesis is that First Movers make a trade-off; taking on a proportionally higher risk in return for higher market share.
Performance measure

- Market share
  - 0 to 100 value
- Industry performance
  - A factor output measure derived from 5 five point Likert scale variables indicating the perceived performance of the respondents firm compared to its competitors (Cronbach’s alfa = 0.9)
- Performance satisfaction
  - A factor output measure derived from 3 seven point Likert scale variables indicating the perceived performance of the respondents firm relative to expectation (Cronbach’s alfa = 0.83)
Table 3. *Variables included in Industry performance.*

<table>
<thead>
<tr>
<th>Variable</th>
<th>N</th>
<th>Mean</th>
</tr>
</thead>
<tbody>
<tr>
<td>After tax return on total assets</td>
<td>420</td>
<td>3.41</td>
</tr>
<tr>
<td>After tax return on total sales</td>
<td>421</td>
<td>3.41</td>
</tr>
<tr>
<td>Firm total sales growth</td>
<td>428</td>
<td>3.62</td>
</tr>
<tr>
<td>Productivity</td>
<td>410</td>
<td>3.76</td>
</tr>
<tr>
<td>Overall performance</td>
<td>426</td>
<td>3.70</td>
</tr>
</tbody>
</table>

Table 4. *Variables included in Performance satisfaction.*

<table>
<thead>
<tr>
<th>Variable</th>
<th>N</th>
<th>Mean</th>
</tr>
</thead>
<tbody>
<tr>
<td>Productivity</td>
<td>479</td>
<td>5.15</td>
</tr>
<tr>
<td>Profitability</td>
<td>497</td>
<td>4.87</td>
</tr>
<tr>
<td>Revenue growth</td>
<td>493</td>
<td>5.11</td>
</tr>
</tbody>
</table>
### Table 6. Regression analysis for the three models.

<table>
<thead>
<tr>
<th>Model</th>
<th>Market share</th>
<th>Industry</th>
<th>Performance</th>
<th>Model</th>
<th>Market share</th>
<th>Industry</th>
<th>Performance</th>
<th>Model</th>
<th>Performance</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Constant)</td>
<td>4.092***</td>
<td>3.873***</td>
<td>4.498***</td>
<td>(0.037)</td>
<td>3.133***</td>
<td>(0.277)</td>
<td>3.278***</td>
<td>2.774***</td>
<td>(1.827)</td>
</tr>
<tr>
<td>Order1</td>
<td>21.110***</td>
<td>0.060</td>
<td>0.183</td>
<td>(0.408)</td>
<td>14.568***</td>
<td>(0.350)</td>
<td>0.507***</td>
<td>(12.150)</td>
<td>0.305***</td>
</tr>
<tr>
<td>Order2</td>
<td>23.694***</td>
<td>0.151</td>
<td>-0.564***</td>
<td>(17.824)</td>
<td>0.439***</td>
<td>(2.311)</td>
<td>0.022***</td>
<td>(23.864)</td>
<td>0.052***</td>
</tr>
<tr>
<td>Order3</td>
<td>27.554***</td>
<td>0.186</td>
<td>0.214***</td>
<td>(27.536)</td>
<td>0.189</td>
<td>0.244***</td>
<td>(5.176)</td>
<td>0.198***</td>
<td>0.196***</td>
</tr>
<tr>
<td>Order4</td>
<td>28.454***</td>
<td>0.059</td>
<td>0.183</td>
<td>(0.498)</td>
<td>15.622***</td>
<td>(0.414)</td>
<td>0.397***</td>
<td>(16.725)</td>
<td>0.463***</td>
</tr>
<tr>
<td>Order5</td>
<td>27.427***</td>
<td>0.128</td>
<td>0.185***</td>
<td>(15.573)</td>
<td>0.131</td>
<td>0.239***</td>
<td>(11.015)</td>
<td>0.360***</td>
<td>0.479***</td>
</tr>
<tr>
<td>Order6</td>
<td>12.735***</td>
<td>0.012</td>
<td>0.076</td>
<td>(0.621)</td>
<td>9.721***</td>
<td>(0.191)</td>
<td>0.077</td>
<td></td>
<td>7.914</td>
</tr>
<tr>
<td>Order7</td>
<td>12.735***</td>
<td>0.012</td>
<td>0.076</td>
<td>(0.621)</td>
<td>9.721***</td>
<td>(0.191)</td>
<td>0.077</td>
<td></td>
<td>7.914</td>
</tr>
<tr>
<td>Order8</td>
<td>12.735***</td>
<td>0.012</td>
<td>0.076</td>
<td>(0.621)</td>
<td>9.721***</td>
<td>(0.191)</td>
<td>0.077</td>
<td></td>
<td>7.914</td>
</tr>
</tbody>
</table>

Other variables:

- **Technological infra:** 0.091, **Technological infra:** 0.091, **Technological infra:** 0.091
- **Manufacturing:** 0.091, **Manufacturing:** 0.091, **Manufacturing:** 0.091
- **Local Industry:** 0.091, **Local Industry:** 0.091, **Local Industry:** 0.091
- **Cum Local:** 0.120, **Cum Local:** 0.120, **Cum Local:** 0.120
- **Lithuania:** 0.120, **Lithuania:** 0.120, **Lithuania:** 0.120
- **Hungary:** 0.120, **Hungary:** 0.120, **Hungary:** 0.120
- **Industry dummy:** 0.120, **Industry dummy:** 0.120, **Industry dummy:** 0.120

**N**: 210, **Adjusted R**: 3.633***, **Adjusted R**: 3.633***, **Adjusted R**: 3.633***

**F-Test of joint spec:** 4.323***, **F-Test of joint spec:** 4.323***, **F-Test of joint spec:** 4.323***

**Adjusted R** square: 0.324, 0.324, 0.324
Results

- Order of entry is strongly and positively associated with market share.
- Neither Industry Performance nor Performance Satisfaction are consistently associated with order of entry.
- These results are consistent with the Meta analysis by VanderWerf & Mahorn (1997).
The study does however find evidence of an "early entry" performance advantage (how long the firm has been in a market is positively associated with performance)

This advantage is particularly strong for partial acquisitions

However, it is not consistent across countries suggesting that it is inherently linked to the general performance of the country
Competition for Markets vs. Competition in Markets
Study design and motivation

• The motivation of this study is to explore the influence of multi-market opportunities on the competitive interaction between MNE’s.

• The study utilizes secondary data sources on all breweries in 9 countries in Central and Eastern Europe.
# Competitive market entry

<table>
<thead>
<tr>
<th>Ownership advantages</th>
<th>Shared entry options</th>
</tr>
</thead>
<tbody>
<tr>
<td>FMA</td>
<td>Competition to enter first</td>
</tr>
</tbody>
</table>

(Miller & Folta, 2002)

- Moving first is associated with a payoff $Y^p$
- Moving last is associated with a payoff $Y^f$
- And naturally the payoff $Y^p > Y^f$
Market clearing mechanism

Rent is absorbed by the local owner
First mover takes on a proportionally higher risk/costs

Hence payoff $Y^P = Y^F$

There should not be a systematic way of benefiting from moving first under competition
Multiple Markets

Homogeneous Markets: Simultaneous entry in all markets

Heterogeneous Markets: Each market entry decision is taken in isolation
Ownership advantages and entry barriers

- The four major players Carlsberg, Heineken, SABMiller and INBEV accounts for roughly 70% of the total sales in the region
  - Suggest strong ownership advantages
- Entry through acquisitions, partial acquisitions or staged acquisitions was the norm (Larimo, Marinov & Marinova, 2006)
  - Suggest barriers to entry
- Only 1 of 9 markets had more than 3 major firms present
  - Suggest preemption
## Market presence and entry timing

<table>
<thead>
<tr>
<th></th>
<th>First mover</th>
<th>N markets</th>
<th>First entry in the region</th>
</tr>
</thead>
<tbody>
<tr>
<td>Heineken</td>
<td>2</td>
<td>5</td>
<td>1991</td>
</tr>
<tr>
<td>SABMiller</td>
<td>1</td>
<td>4</td>
<td>1993</td>
</tr>
<tr>
<td>IN BEV</td>
<td>4</td>
<td>5</td>
<td>1991</td>
</tr>
<tr>
<td>Carlsberg</td>
<td>4</td>
<td>6</td>
<td>1991</td>
</tr>
</tbody>
</table>
Market clearing of FMA

- All 4 belong on the list of the 10 largest brewers in the world
- The industry faces stagnant demand in its primary markets creating a need to seek elsewhere for growth opportunities
- All 4 have entered relatively early (1991-1993)
- All 4 have strong market presence in the region

The evidence would suggest a competitive environment similar to what Miller and Folta (2002) refers to as "shared entry options" leading to an erosion of the performance advantages associated with early entry.
## Order of entry and performance

<table>
<thead>
<tr>
<th></th>
<th>First movers</th>
<th>Followers</th>
<th>F test</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market leadership</td>
<td>0.636 (0.505)</td>
<td>0.105 (0.315)</td>
<td>12.693***</td>
</tr>
<tr>
<td>Market share</td>
<td>35.461 (11.989)</td>
<td>16.137 (11.945)</td>
<td>18.184***</td>
</tr>
<tr>
<td>Return on sales</td>
<td>15.200 (9.866)</td>
<td>6.482 (9.179)</td>
<td>5.953**</td>
</tr>
<tr>
<td>N</td>
<td>30</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*** p<0.01, ** p<0.05, * p<0.10.
Multimarket competition with resource constraints

The payoff from moving first in market $A$ ($A^P$) is given by the payoff of moving first in market $B$ ($B^P$)
Main proposition -
Competition for markets

- The combination of resource intensive investments and multiple market opportunities suggest that opportunity costs are high. Since first mover advantages are strong this would suggest that:

  - As long as alternative market opportunities are available, firms will pursue these rather than follow!
Derived propositions

- Miller and Folta (2002) can you derive superior returns on shared entry options?

  - Competition to get first in individual markets will not erode the performance advantage of moving first!

- Since firm Z will enjoy FMA in market A, but firm P will enjoy FMA in market B then we get that:

  - The narrower the geographical market definition the greater the likelihood of observing first mover performance advantages!
Resource rationing

- Mascarenhas (1997) found that the initial resource commitment was less important for the performance of the venture than moving first as such. Moreover Mills (1988) found that it would be possible to secure a FMA by an infinitely small investment as long as the follower cannot leap frog the leader and threats are costly. This suggest that:

- Firms will seek to ration their resources to acquire first mover advantages in a larger number of markets by pursuing low commitment/resource entry modes!
Exercising threats, why do firms follow?

- In Mills (1988) view firms do not follow because they can’t win. However, they might just do so to force the leader to forfeit his option value (Miller and Folta, 2002):
  
  - Even when threats are costly firms may exercise them in order to tie up the leader’s resources!
  
  - And conversely, when multiple market opportunities exist, firms may pursue FMA in a larger number of markets by entry with small commitments of resources in comparatively smaller or less attractive markets!
Implications

- The decision to enter a given market will often NOT be independent of other market opportunities. Hence FMA studies should try to incorporate these alternative market opportunities/ opportunity costs

- Follower operations might not be intended to overtake the leader, hence FMA could potentially be overestimated