

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

Kristian Jakobsen
Center for East European Studies,
Department of International Economics and Management,
Copenhagen Business School

Mail: kj.int@cbs.dk

www.cbs.dk/staff/kristian_jakobsen

Research interests

■ First mover advantages studies

Jakobsen, K. (2008). Competition for Markets in the Brewing Industry in Central and Eastern Europe. In J. Larimo (Ed.) *Perspectives on Internationalization and International Management*, Vassan Yliopiston Julkaisuja, p. 299-316. ISBN 978-952-476-228-1

Jakobsen, K. (2007). First mover advantages in Central and Eastern Europe: A comparative analysis of performance measures, *Journal of East-West Business*, 13(1), p. 35-61.

■ Entry mode studies

Jakobsen, K., & Meyer, K. E. (2008). Partial Acquisition: The overlooked entry mode. In J. H. Dunning and P. Gugler (eds.) *Progress in International Business Research 2*, Elsevier Science, p. 203-226. ISBN 978-0-7623-1475-1

Jakobsen, K., & Meyer, K. E. (2007). Negotiating entry modes: Partial acquisitions in transition economies. Currently, revise and resubmit at *International Business Review*.

- **Corporate governance studies**

Jakobsen, K., & Thomsen, S. (2008). Corporate Governance and Global Competitiveness: The case of Danisco, *Work in progress*.

Jakobsen, K., & Thomsen, S. (2008). Corporate Governance and Global Competitiveness: The case of ISS, *Work in progress*.

Knudsen, J. S., Jakobsen, K., & Thomsen, S. (2008). Corporate Governance and Global Competitiveness of Nordic Firms: The case of Novozymes, *Work in progress*.

FMA in the market place

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

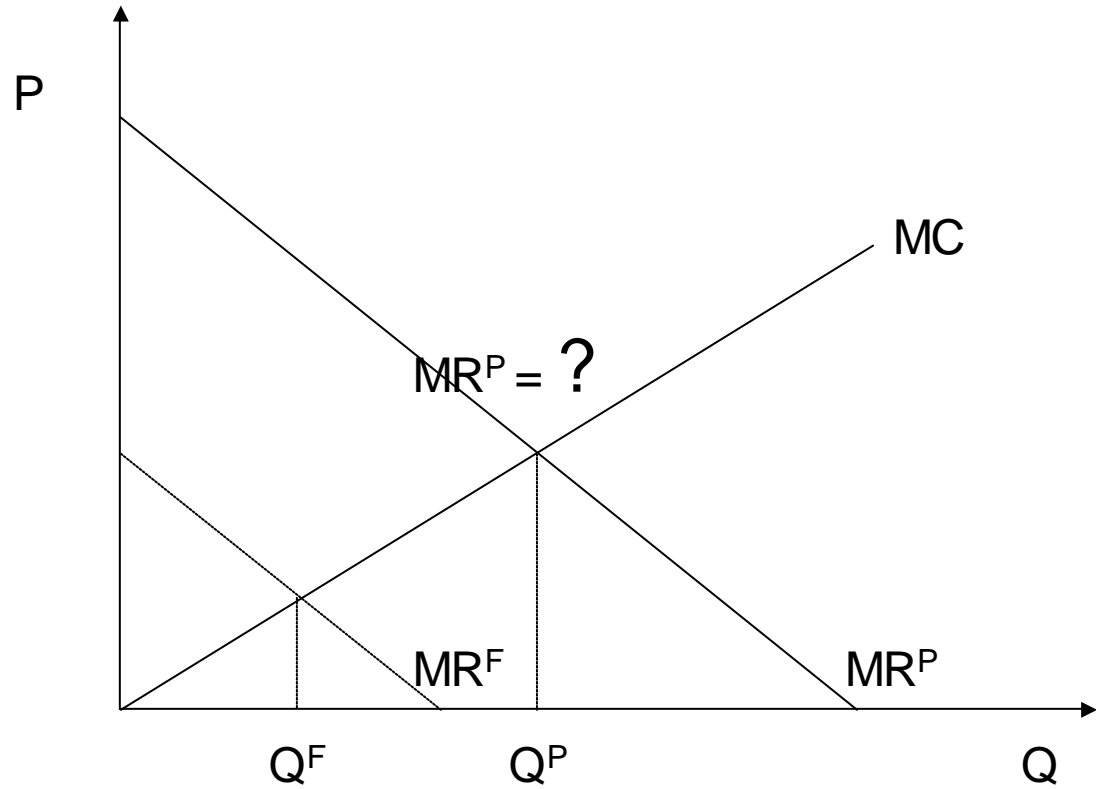
■ F-M Advantages

- 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



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

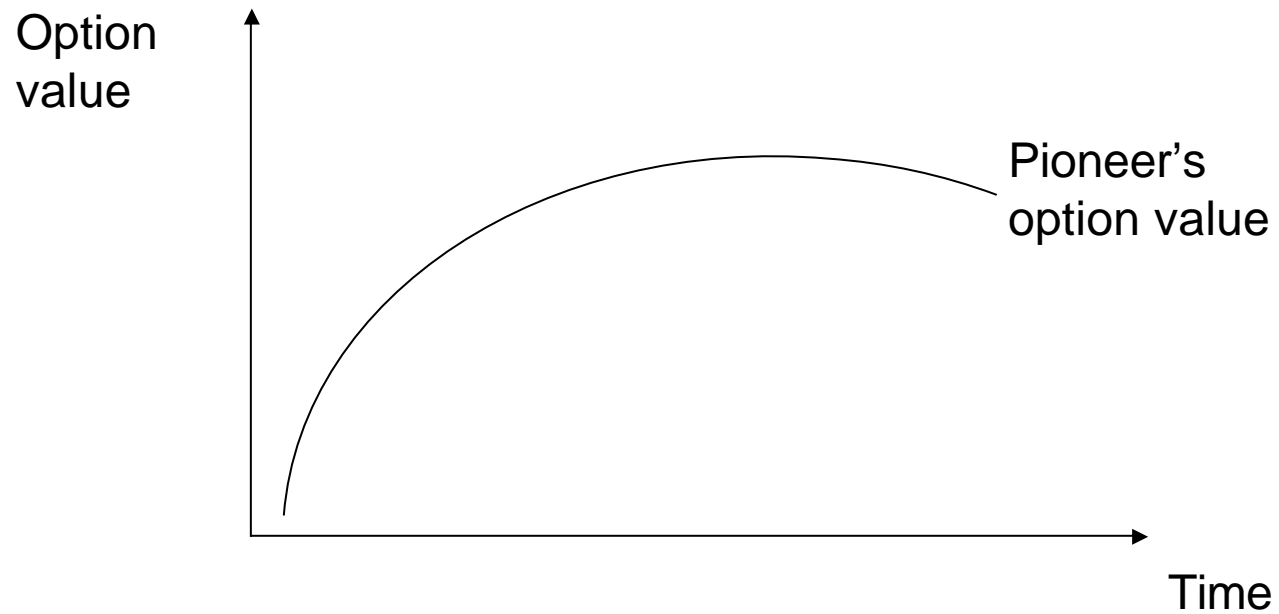
■ F-M advantages

- 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

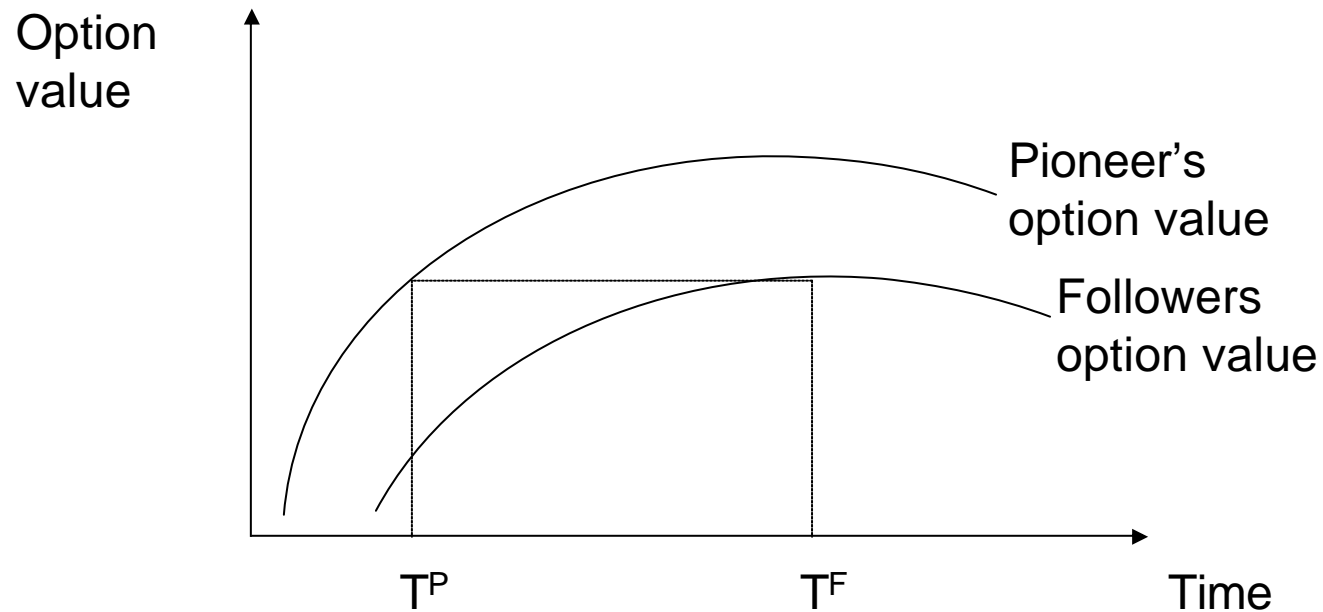
The value of waiting



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



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.*

Variable	N	Mean
After tax return on total assets	420	3,41
After tax return on total sales	421	3,41
Firm total sales growth	428	3,62
Productivity	410	3,76
Overall performance	426	3,70

Table 4. *Variables included in Performance satisfaction.*

Variable	N	Mean
Productivity	479	5,15
Profitability	497	4,87
Revenue growth	493	5,11

Table 6. Regression analysis for the three models.

	Modelmarketshare			Modelindustry			Modelperformance		
	Marketshare	Industry	Performance	Marketshare	Industry	Performance	Marketshare	Industry	Performance
(Constant)	-4,053 (10,627)	3,373*** (0,306)	4,488*** (0,420)	-5,876 (14,563)	3,278*** (0,350)	3,774*** (0,507)	-32,003*** (12,150)	3,001*** (0,323)	3,156*** (0,416)
Order1	31,313*** (6,322)	0,249 (0,180)	-0,142 (0,242)	24,880*** (7,250)	0,151 (0,169)	-0,544** (0,244)	23,284*** (6,178)	0,418*** (0,158)	0,095 (0,199)
Order2	26,116*** (5,648)	0,056 (0,159)	0,183 (0,221)	24,764*** (5,822)	-0,013 (0,141)	-0,006 (0,207)	23,593*** (5,725)	0,141 (0,143)	0,230 (0,189)
Order3	19,844*** (5,131)	0,267* (0,150)	0,394* (0,208)	15,768*** (5,333)	0,111 (0,131)	0,207 (0,195)	11,015** (5,275)	0,160 (0,138)	0,473*** (0,182)
Order4	13,785** (5,891)	0,012 (0,168)	0,075 (0,227)	9,721 (6,273)	-0,191 (0,147)	-0,077 (0,212)	7,514 (6,370)	-0,019 (0,152)	0,014 (0,205)
Age	-0,506 (0,675)	0,035* (0,020)	0,056** (0,026)	-0,400 (0,752)	0,008 (0,018)	0,067*** (0,025)	0,585 (0,644)	0,032* (0,017)	0,072*** (0,022)
lithuaniaLinkage	0,919 (2,057)	-0,120** (0,048)	-0,167** (0,067)	2,169 (2,260)	-0,088** (0,044)	-0,126* (0,065)	2,450 (2,072)	-0,095** (0,044)	-0,153*** (0,059)
Firstaffiliate	21,584*** (4,938)	0,201 (0,140)	0,075 (0,199)	21,072*** (5,091)	0,029 (0,128)	-0,096 (0,187)	23,937*** (5,021)	0,002 (0,129)	0,116 (0,167)
Hostmarket- knowledge	9,672** (4,467)	0,046 (0,130)	0,062 (0,180)	11,199** (4,731)	-0,044 (0,119)	-0,050 (0,171)	16,367*** (4,572)	-0,120 (0,120)	0,051 (0,152)
Marketknow- ledgeEE	-1,355 (3,614)	0,031 (0,103)	0,072 (0,144)	-2,350 (3,998)	-0,068 (0,095)	-0,010 (0,140)	-1,424 (3,712)	-0,033 (0,094)	0,007 (0,125)
Acquisition	11,955** (5,249)	0,008 (0,141)	-0,108 (0,199)	8,616 (5,499)	0,098 (0,124)	-0,183 (0,184)	6,632 (4,824)	-0,189 (0,121)	-0,230 (0,161)
JV	6,519 (5,105)	-0,134 (0,145)	0,316 (0,203)	3,583 (5,190)	-0,014 (0,127)	0,340* (0,187)	9,392* (5,167)	-0,157 (0,130)	0,210 (0,173)
Part_Acq	8,357 (5,912)	-0,082 (0,175)	-0,472** (0,240)	0,744 (6,483)	0,099 (0,156)	-0,341 (0,225)	9,843* (5,659)	-0,008 (0,148)	-0,160 (0,190)
Lowcostlabor	14,029*** (4,146)	-0,071 (0,116)	-0,164 (0,183)						
skilled labor							3,616* (2,164)	0,023 (0,056)	0,187** (0,073)
Tech				0,739 (1,214)	0,086*** (0,029)	0,112*** (0,041)	5,053 (4,106)	0,309*** (0,110)	0,593*** (0,141)
Humanresources				1,844 (1,763)	0,109*** (0,040)	0,139** (0,057)	3,040 (2,194)	0,237*** (0,055)	0,183*** (0,070)
Manufinkexport	-0,286*** (0,096)	0,000 (0,003)	0,003 (0,004)						
Localresources	-0,138*** (0,046)	-0,001 (0,001)	-0,001 (0,002)						
Localindustry				-1,420 (1,009)	-0,103*** (0,025)	-0,039 (0,037)			
dumNolocal				-4,441 (9,456)	-0,735*** (0,234)	0,211 (0,320)			
Lithuania	29,317* (15,278)	0,498 (0,368)	0,870* (0,507)	19,614 (16,633)	0,293 (0,341)	0,592 (0,493)	13,550 (16,590)	0,527 (0,347)	0,886* (0,460)
Hungary	8,690** (4,199)	0,017 (0,125)	0,206 (0,173)	5,664 (4,791)	0,165 (0,117)	0,036 (0,171)	0,826 (4,357)	0,128 (0,113)	0,249* (0,150)
Industrydummies*									
Homecountrydummies*									
Respondent dummy*									
N	219	282	314	215	281	313	235	302	343
F test of joint sig.	4,833***	1,600**	1,799***	3,182***	3,827***	3,330***	4,340***	3,453***	4,907***
Adjusted R Square	0,330	0,056	0,067	0,234	0,232	0,183	0,293	0,191	0,249

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

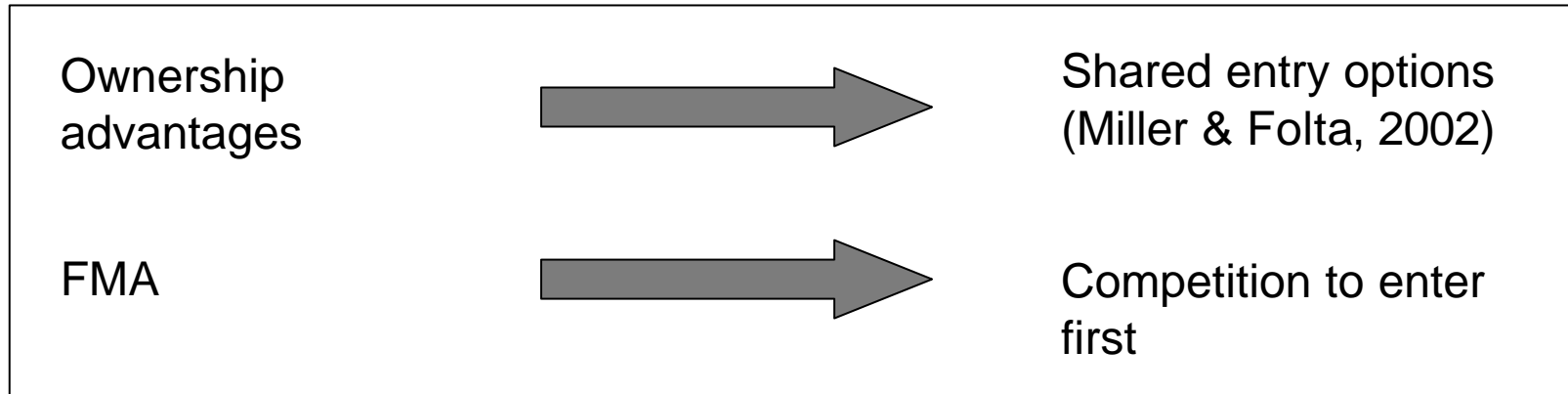


Study design and motivation

- 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



- 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

Auction



Rent is absorbed by
the local owner

Competing on
entry time

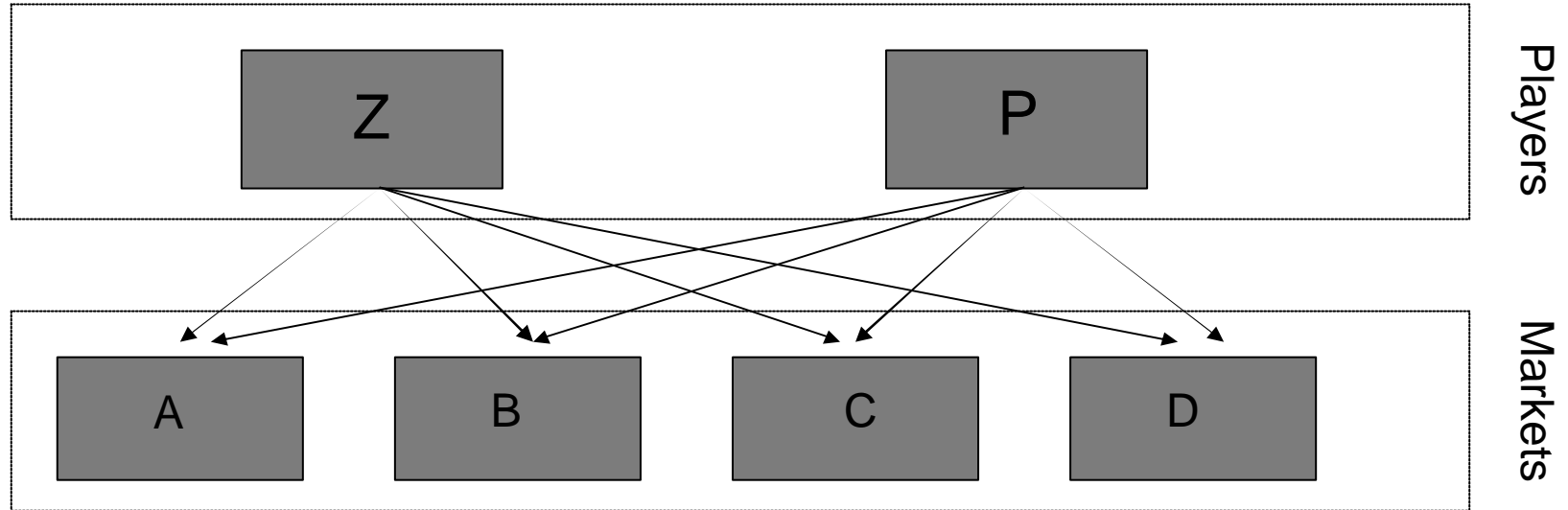


First mover takes on a
proportionally higher
risk/costs

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

	First mover	N markets	First entry in the region
Heineken	2	5	1991
SABMiller	1	4	1993
INBEV	4	5	1991
Carlsberg	4	6	1991

Market clearing of FMA

- All 4 belong on the list of the 10 largest brewers in the world
- The industry face 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”

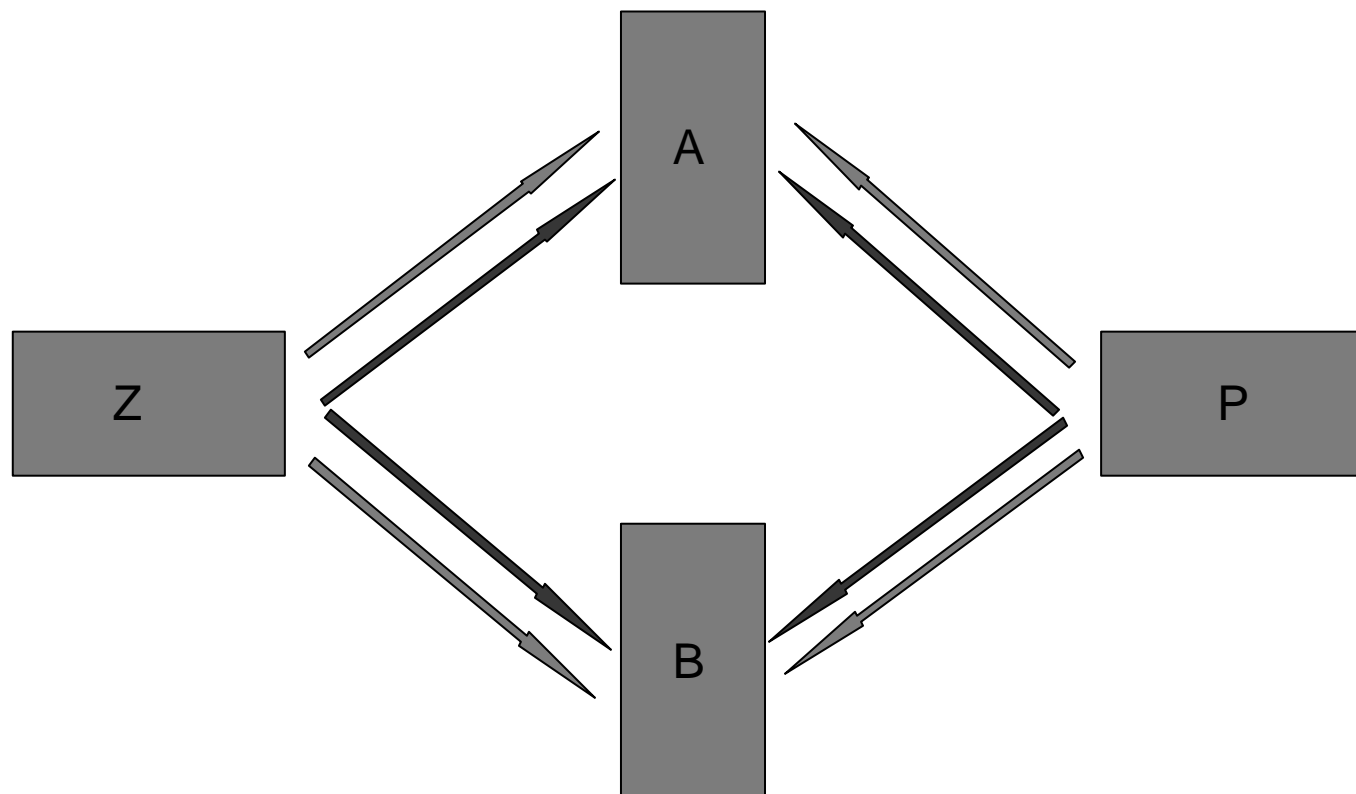
leading to an erosion of the performance advantages associated with early entry

Order of entry and performance

	First movers	Followers	F test
Market leadership	0.636 (0.505)	0.105 (0.315)	12.693***
Market share	35.461 (11.989)	16.137 (11.945)	18.184***
Return on sales	15.200 (9.866)	6.482 (9.179)	5.953**
N	30		

*** $p < 0.01$, ** $p < 0.05$, * $p < 0.10$.

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 exists, 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